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ABSTRACT

This document is a supplement to Circular A-133 (1990) from the Office of Management and Budget (OMB), which extended the government's "single audit process" for agencies that administer federal financial assistance programs to higher education institutions and non-profit organizations. This supplement is based on the 1996 Amendments (the Single Audit Act Amendments of 1996 based on the Single Audit Act of 1984 which established requirements for audits of states, local governments, and Indian tribal governments that administer federal financial assistance programs) and the final revision of OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations," which provide for the issuance of a compliance statement to assist auditors in performing the required audits. It identifies compliance requirements that the Federal government expects to be considered as part of an audit under the 1996 Amendments. It enables auditors to avoid time-consuming research into the requirements that must be met. The Supplement provides auditors with the federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements. For single audits, the supplement replaces agency audit guides and other audit requirement documents for individual federal programs. The guide is divided into these sections: (1) "Background, Purpose, and Applicability"; (2) "Matrix of Compliance Requirements"; (3) "Compliance Requirements"; (4) "Agency Program Requirements"; (5) "Clusters of Programs"; (6) "Internal Control"; and (7) "Guidance for Auditing Programs Not Included in this Compliance Supplement." Part 4 lists specific requirements for many financial assistance programs of the U.S. Department of Education. Including Title I and TRIO programs, and part 5 contains guidance for Department of Education clusters of programs, including federal student loan programs such as the Perkins, Pell, and Direct Loan programs. Eight appendixes provide additional details, background information, and some internal reference materials. (SLD)

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PART 1 - BACKGROUND, PURPOSE, AND APPLICABILITY

BACKGROUND

The Single Audit Act of 1984 established requirements for audits of States, local governments, and Indian tribal governments that administer Federal financial assistance programs. In 1985, the Office of Management and Budget (OMB) issued OMB Circular A-128, "Audits of State and Local Governments," to provide implementing guidance. In 1990, OMB administratively extended the single audit process to non-profit organizations by issuing OMB Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Organizations."

On July 5, 1996, the President signed the Single Audit Act Amendments of 1996 (31 USC Chapter 75). The 1996 Amendments extended the statutory audit requirement to non-profit organizations and substantially revised various provisions of the 1984 Act. On June 30, 1997, OMB issued final revisions to Circular A-133 (62 FR 35278). The final revisions implement the 1996 Amendments, extend OMB Circular A-133's coverage to States, local governments, and Indian tribal governments, and rescind OMB Circular A-128.

This Compliance Supplement is based on the requirements of the 1996 Amendments and the final revision of OMB Circular A-133 which provide for the issuance of a compliance supplement to assist auditors in performing the required audits. The Senate and House Reports supporting the 1996 Amendments cited studies of the single audit process performed by the General Accounting Office, the President's Council on Integrity and Efficiency and the National State Auditors Association (NSAA). All three studies supported the need for a current compliance supplement. The NSAA study stated, "The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. This tool allows Federal agencies to effectively communicate items which they believe are important to the successful management of the program and legislative intent . . . Such a valuable tool requires constant review and update."

This document serves to identify existing important compliance requirements which the Federal Government expects to be considered as part of an audit required by the 1996 Amendments. Without this Supplement, auditors would need to research many laws and regulations for each program under audit to determine which compliance requirements are important to the Federal Government and could have a direct and material effect on a program. Providing this Supplement is a more efficient and cost effective approach to performing this research. For the programs contained herein, this Supplement provides a source of information for auditors to understand the Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

This Supplement also provides guidance to assist auditors in determining compliance requirements relevant to the audit, audit objectives, and suggested audit procedures for programs not included herein. For single audits, this Supplement replaces agency audit guides and other audit requirement documents for individual Federal programs.

OMB Circular A-133 provides that Federal agencies are responsible to annually inform OMB of any updates needed to this Supplement. This responsibility includes ensuring that program objectives, procedures, and compliance requirements, noncompliance with which could have a direct and material effect on these individual Federal programs, are provided to OMB for inclusion in this Supplement, and that agencies keep current these program objectives, procedures, and compliance requirements (including statutory and regulatory citations). To facilitate agency efforts to meet this responsibility, Parts 4 and 5 of this Supplement provide a stand-alone section for each program included in this Supplement which contains program objectives, program procedures, and compliance requirements. For some programs a separate subsection (IV. Other Information), is also included to communicate additional information concerning the program. For example, when a program allows funds to be transferred to another program, subsection IV will provide guidance on how those funds should be treated on the Schedule of Expenditures of Federal Awards and Type A program determinations. See Appendix IV for a list of programs which contain this subsection. These individual sections can be updated or replaced as Federal programs change. Also, sections will be added for additional programs once the program objectives, program procedures, and compliance requirements relevant to the program are written.

PURPOSE AND APPLICABILITY (Part 1)

Purpose

This Supplement is effective for audits of fiscal years beginning after June 30, 1999, and supersedes the OMB Circular A-133 Compliance Supplement issued in April 1999.

OMB Circular A-133 describes the non-Federal entity's responsibilities for managing Federal assistance programs (§ ___.300) and the auditor's responsibility with respect to the scope of audit (§___.500). Auditors are required to follow the provisions of OMB Circular A-133 and this Supplement.

Applicability

General

Auditors shall consider this Supplement and the referenced laws, regulations, and OMB Circulars (as codified by Federal agencies in agency regulations) in determining the compliance requirements that could have a direct and material effect on the programs included herein. That is, use of this Supplement is mandatory. Accordingly, adherence to this Supplement satisfies the requirements of OMB Circular A-133. For program-specific audits performed in accordance with a Federal agency's program-specific audit guide, the auditor shall follow such program-specific audit guide. Finally, for major programs not included in this Supplement, the auditor shall follow the guidance in Part 7 and use the types of compliance requirements in Part 3 to identify the applicable compliance requirements which could have a direct and material effect on the program.

Update of Requirements

OMB Circular A-133 provides that Federal agencies are responsible to annually inform OMB of any updates needed to this Supplement. However, auditors should recognize that laws and regulations change periodically and that delays will occur between such changes and revisions to this Supplement. Moreover, auditors should recognize that there may be provisions of contract and grant agreements that are not specified in law or regulation and, therefore, the specifics of such are not included in this Supplement. For example, the grant agreement may specify a certain matching percentage or set a priority for how funds should be spent (e.g., a requirement to not fund certain size projects). Another example is a Federal agency imposing additional requirements on a recipient because it is high-risk in accordance with the A-102 Common Rule, or as part of resolution of prior audit findings.

Accordingly, the auditor should perform reasonable procedures to ensure that compliance requirements are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments. Reasonable procedures would be inquiry of non-Federal entity management and review of the contract and grant agreements for programs selected for testing (i.e., major programs).

Safe Harbor Status

Because the suggested audit procedures were written to be able to apply to many different programs administered by many different entities, they are necessarily general in nature. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives or whether additional or alternative audit procedures are needed. Therefore, the auditor should **not** consider this Supplement to be a "safe harbor" for identifying the audit procedures to apply in a particular engagement.

However, the auditor can consider this Supplement a "safe harbor" for identification of compliance requirements to be tested for the programs included herein if, as discussed above, the auditor (1) performs reasonable procedures to ensure that the requirements in this Supplement are current and to determine whether there are any additional provisions of contract and grant agreements that should be covered by an audit under the 1996 Amendments, and (2) updates or augments the requirements contained in this Supplement as appropriate.

Responsibility for Other Requirements

Although the focus of this Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

OVERVIEW OF THIS SUPPLEMENT

Matrix of Compliance Requirements (Part 2)

The Matrix of Compliance Requirements (Matrix) identifies the Federal programs and compliance requirements addressed by this Supplement and associates the programs with the applicable compliance requirements. The Matrix also identifies the applicable Federal agency and Catalog of Federal Domestic Assistance (CFDA) number for each program included in this Supplement.

Compliance Requirements (Part 3)

Part 3 lists and describes the 14 types of compliance requirements and, except for Special Tests and Provisions, the related audit objectives that the auditor shall consider in every audit conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. Suggested audit procedures are also provided to assist the auditor in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objectives and whether additional or alternative audit procedures are needed. Determining the nature, timing, and extent of the audit procedures necessary to meet the audit objectives is the auditor's responsibility.

The compliance requirements for Special Tests and Provisions are unique to each Federal program; therefore, compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are not included in Part 3.

Because of the diversity of systems in place among non-Federal entities, Part 3 does not include suggested audit procedures to test internal control. The auditor must determine appropriate procedures to test internal control on a case by case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

Agency Program Requirements (Part 4)

For each Federal program included, Part 4 discusses program objectives, program procedures, and compliance requirements which are specific to the program. With the exception of Special Tests and Provisions, the auditor shall refer to Part 3 for the audit objectives and suggested audit procedures that pertain to the compliance requirements associated with the programs. Since Special Tests and Provisions are unique to the program, the audit objectives and suggested audit procedures for the program are included in Part 4.

The description of program procedures is general in nature. Some programs may operate somewhat differently than described due to: (1) the complexity of governing Federal and State laws and regulations; (2) the administrative flexibility afforded non-Federal entities; and, (3) the

nature, size, and volume of transactions involved. Accordingly, the auditor should obtain an understanding of the applicable compliance requirements and program procedures in operation at the non-Federal entity to properly plan and perform the audit.

Clusters of Programs (Part 5)

A cluster of programs is a grouping of closely related programs that have similar compliance requirements. The types of clusters are: Research and Development (R&D), Student Financial Aid (SFA), and other clusters. "Other clusters" are as identified in this Supplement or designated in a State award document.

Although the programs within a cluster are administered as separate programs, a cluster of programs is treated as a single program for the purpose of meeting the audit requirements of OMB Circular A-133 (§__.105). Part 5 provides compliance requirements, audit objectives, and suggested audit procedures for R&D and SFA clusters and lists other clusters.

In planning and performing the audit, the auditor should determine whether programs administered by the non-Federal entity are part of a cluster by referring to the provisions of Part 5 of this Supplement and the State award documents.

Internal Control (Part 6)

As a condition of receiving Federal awards, non-Federal entities agree to comply with applicable laws, regulations, and the provisions of contract and grant agreements, and to maintain internal control to provide reasonable assurance of compliance with these requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned. Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by presenting characteristics of internal control which may be used to reasonably ensure compliance with the types of compliance requirements in Part 3. The characteristics of internal control presented in Part 6 are neither mandatory nor all inclusive.

Guidance for Auditing Programs Not Included in this Compliance Supplement (Part 7)

Part 7 provides guidance to auditors in identifying the compliance requirements and designing tests of compliance with such requirements for programs not included in this Supplement.

Federal Programs Excluded from the A-102 Common Rule (Appendix I)

This Appendix lists block grants and entitlement programs excluded from the requirements of the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (also known as the "A-102 Common Rule").

Federal Agency Codification of Certain Governmentwide Grants Requirements (Appendix II)

This Appendix provides regulatory citations and Federal agencies' codification of the A-102 Common Rule and OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," in agency regulations. Some agencies have not yet codified the November 1993 revision to OMB Circular A-110 but either are in the process of doing so or have provided such policies to grantees through other means such as grant agreements.

Federal Agency Contacts for A-133 Audits (Appendix III)

This Appendix identifies Federal agency contacts from which auditors can request information or materials about Federal programs or the audit requirements of OMB Circular A-133.

Internal Reference Tables (Appendix IV)

This Appendix provides a listing of programs in Parts 4 and 5 which include "IV. Other Information." This listing allows the auditor to quickly determine which programs have other information such as guidance on Type A and Type B program determination or display on the Schedule of Expenditures of Federal Awards. Also identified in this Appendix is that the Medicaid Cluster is the only program currently identified as higher risk by OMB pursuant to Circular A-133, §___.525(c)(2).

List of Changes for the 2000 Compliance Supplement (Appendix V)

This Appendix provides a list of changes from the OMB Circular A-133 Compliance Supplement issued in April 1999 to this 2000 Supplement.

Other OMB Circular A-133 Advisories (Appendix VI)

This Appendix provides a copy of other OMB advisories. Both advisories concern the Year 2000 Issue.

SAS 70 Examinations of EBT Service Organizations (Appendix VII)

This Appendix provides guidance on audits of State electronic benefits transfer (EBT) service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program (CFDA 10.551) in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations.

Compliance Supplement Core Team (Appendix VIII)

This Appendix provides a listing of the Compliance Supplement Core Team members who were responsible for the production of this Supplement.

TECHNICAL INFORMATION

Page Numbering Scheme

The following page numbering scheme is used in this supplement to facilitate future revisions.

Each page included in Parts 1, 2, 3 (introduction), 6 (introduction), and 7 is identified by a label that represents the part number and sequential page number. A dash (-) separates the part number from the page number. For example, Part 1 is numbered as follows: 1-1, 1-2, 1-3, and so on.

Each page included in Parts 3 (excluding introduction), 4, 5, and 6 (excluding introduction) is identified by a label that represents the part number, section number identifier, and sequential page number. For example, Section A of Part 3 is numbered 3-A-1, 3-A-2, 3-A-3, and so on. The section number identifier for Part 4 represents the CFDA number of the applicable program. For example, the Department of Labor (DOL) Unemployment Insurance program, CFDA number 17.225, is numbered 4-17.225-1, 4-17.225-2, 4-17.225-3, and so on.

Code of Federal Regulations

The Code of Federal Regulations (CFR) is a codification of the rules issued by Federal agencies. The CFR is divided into 50 titles which comprise the broad areas subject to Federal regulation. Each title is further divided into parts and sections, with most references to the CFR being made at this level.

Portions of the CFR are revised daily and these changes are published in the *Federal Register*. However, a revised version of the CFR is published only once each calendar year, on a quarterly basis as follows: titles 1-16 on January 1, titles 17-27 on April 1, titles 28-41 on July 1, and titles 42-50 on October 1.

In the event that changes to a particular section of a title have changed since the last published update of that section, a notation is made in the List of CFR Sections Affected (LSA), which is published monthly. The LSA cites the *Federal Register* page number which contains the changes to the CFR section.

In order to obtain the most current regulations, the user should consult not only the latest version of the CFR, but also the LSA issued in the current month. The *Federal Register* home page (http://www.access.gpo.gov/nara/) offers links to both the *Federal Register* and the CFR. Please note that on-line versions of the CFR may not be the most current available.

HOW TO OBTAIN ADDITIONAL GUIDANCE

Guidance to assist auditors in performing audits in accordance with OMB Circular A-133 can be obtained from the following sources.

Office of Management and Budget

The following information is located under the grants management heading on OMB's Internet home page (http://www.whitehouse.gov/OMB).

- OMB publications, including OMB Circulars and this Supplement for audits under OMB Circular A-133.
- SF-SAC, *Data Collection Form for Reporting on Audits of States, Local Governments, and Non-Profit Organizations*.
- Codification of Certain Governmentwide Grants Requirements by Department (including the Grants Management Common Rule and OMB Circular A-110)

General Services Administration (GSA)

Federal Domestic Assistance Catalog Staff (MVS)
General Services Administration
Ground Floor, Reporters Building
300 7th Street, S.W., Washington, DC 20407
Telephone: (202) 708-5126

- Catalog of Federal Domestic Assistance (CFDA).

A searchable copy of the CFDA is available through the Internet on the GSA Home Page (http://www.cfda.gov). The CFDA is also available in hard copy (from the Government Printing Office), and on machine-readable magnetic tape, high-density floppy diskettes, and CD-ROM (from GSA).

Government Printing Office (GPO)

Superintendent of Documents
P.O. Box 371954
Pittsburgh, PA 15250-7954
Telephone: (202) 512-1800

- Catalog of Federal Domestic Assistance.
- Government Auditing Standards (stock number 020-000-00-265-4).
- March 2000 Circular A-133 Compliance Supplement (041-001-00544-7).

Inspectors General

IGnet Home Page on the Internet (http://www.ignet.gov).

- Inspector General Directory.
- Government Auditing Standards.
- Inspector General Act.
- Single Audit Home Page.
- Virtual Library.

Federal Audit Clearinghouse

The Federal Audit Clearinghouse acts as an agent for OMB to: (1) establish and maintain a governmentwide database of single audit results and related Federal award information; (2) serve as the Federal repository of single audit reports; and (3) distribute single audit reports to Federal agencies.

The Clearinghouse maintains a site on the Internet at http://harvester.census.gov/sac/.

PART 2 - MATRIX OF COMPLIANCE REQUIREMENTS

INTRODUCTION

This Part identifies the compliance requirements that are applicable to the programs included in this Supplement. Because Part 4, Agency Program Requirements and Part 5, Clusters of Programs do not include guidance for all types of compliance requirements that pertain to the program, (see introduction to Part 4 for additional information), the auditor should use this Part to identify the types of compliance requirements that are applicable. The boxes for each type of compliance requirement will either contain a "Y" (for yes if the type of compliance requirement may apply) or be shaded (if the program normally does not have activity subject to this type of compliance requirement).

Even though a "Y" indicates that the compliance requirement applies to the Federal program, it may not apply at a particular non-Federal entity, either because that entity does not have activity subject to that type of compliance requirement or the activity could not have a material effect on a major program. For example, even though Real Property Acquisition/Relocation Assistance may apply to a particular program, it would not apply to a non-Federal entity that did not acquire real property covered by the Uniform Relocation Assistance and Real Property Acquisition Policies Act. Similarly, a "Y" may be included under "Procurement;" however, the audit would not be expected to address this type of compliance requirement if the non-Federal entity charges only small amounts of purchases to a major program. The auditor should exercise professional judgment when determining which compliance requirements marked "Y" need to be tested at a particular non-Federal entity.

When a "Y" is present on the matrix and the auditor determines that the requirement should be tested at the non-Federal entity, the auditor should use Part 3, Compliance Requirements, and Parts 4 (or 5), if applicable, in planning and performing the tests of compliance. For example, if a program entry in the matrix includes a "Y" in the Program Income column, Part 3 provides a general description of the compliance requirement. Part 3 also provides the audit objective and the suggested audit procedures for testing program income. Part 4 (or 5) may also include specific information on program income criteria pertaining to the program, such as restrictions on how program income may be used. Part 6, Internal Control, may be useful in assessing control risk and designing tests of internal control with respect to each applicable compliance requirement.

When a compliance requirement is shaded in the matrix, it normally does not apply to the program. However, if specific information comes to the auditor's attention (e.g., during the normal review of the grant agreement or discussions with management) that provides evidence that a compliance requirement shaded in the matrix could have a material effect on a major program, the auditor would be expected to test the requirement. This circumstance should arise infrequently.

CFDA	Types of Compliance Requirements													
	A. Activities Allowed or Unallowed	B. Allowable Costs/Cost Principles	C. Cash Management	D. Davis-Bacon Act	E. Eligibility	F. Equipment and Real Property Management	G. Matching, Level of Effort, Earmarking	H. Period of Availability of Federal Funds	I. Procurement and Suspension and Debarment	J. Program Income	K. Real Property Acquisition/ Relocation Assistance	L. Reporting	M. Subrecipient Monitoring	N. Special Tests and Provisions
66 — Environmental Protection Agency (EPA)														
66.458	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
66.468	Y	Y	Y			Y	Y	Y	Y	Y	Y	Y	Y	Y
81 — Department of Energy (DOE)														
81.042	Y	Y	Y		Y	Y	Y		Y	Y		Y	Y	
83 — Federal Emergency Management Administration (FEMA)														
83.543	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
83.544	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84 — Department of Education (ED)														
84.002	Y	Y	Y			Y	Y	Y	Y			Y	Y	
84.010	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.011	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.027 84.173	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.032	See Part 4											Y		Y

CFDA	Types of Compliance Requirements													
	A. Activities Allowed or Unallowed	B. Allowable Costs/Cost Principles	C. Cash Management	D. Davis-Bacon Act	E. Eligibility	F. Equipment and Real Property Management	G. Matching, Level of Effort, Earmarking	H. Period of Availability of Federal Funds	I. Procurement and Suspension and Debarment	J. Program Income	K. Real Property Acquisition/ Relocation Assistance	L. Reporting	M. Subrecipient Monitoring	N. Special Tests and Provisions
84.041	Y	Y					Y					Y		Y
84.042 84.044 84.047 84.066 84.217	Y	Y	Y			Y		Y	Y			Y		
84.048	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.126	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		Y
84.181	Y	Y	Y			Y	Y	Y	Y			Y		
84.186	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.276	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.278*	Y	Y	Y		Y		Y					Y	Y	Y
84.281	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.282	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
84.287	Y	Y	Y			Y	Y	Y	Y	Y		Y		Y

CFDA	Types of Compliance Requirements													
	A. Activities Allowed or Unallowed	B. Allowable Costs/Cost Principles	C. Cash Management	D. Davis-Bacon Act	E. Eligibility	F. Equipment and Real Property Management	G. Matching, Level of Effort, Earmarking	H. Period of Availability of Federal Funds	I. Procurement and Suspension and Debarment	J. Program Income	K. Real Property Acquisition/ Relocation Assistance	L. Reporting	M. Subrecipient Monitoring	N. Special Tests and Provisions
84.288 84.290 84.291	Y	Y	Y			Y	Y	Y	Y			Y		Y
84.298	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.318	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.340	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
93 — Department of Health and Human Services (HHS)														
93.044 93.045	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	
93.210	Y	Y			Y			Y		Y		Y		Y
93.556	Y	Y	Y			Y	Y	Y	Y			Y		
93.558	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
93.563	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
93.568	Y	Y	Y		Y		Y	Y	Y			Y	Y	
93.569	Y	Y	Y		Y		Y	Y	Y				Y	

PART 3 - COMPLIANCE REQUIREMENTS

INTRODUCTION

The objectives of most compliance requirements for Federal programs administered by States, local governments, Indian tribal governments, and non-profit organizations are generic in nature. For example, most programs have eligibility requirements for individuals or organizations. While the criteria for determining eligibility vary by program, the objective of the compliance requirement that only eligible individuals or organizations participate is consistent across all programs.

Rather than repeat these compliance requirements, audit objectives, and suggested audit procedures for each of the programs contained in Part 4 - Agency Program Requirements and Part 5 - Clusters of Programs, they are provided once in this part. For each program in this Compliance Supplement (this Supplement), Part 4 or Part 5 contains additional information about the compliance requirements that arise from laws and regulations applicable to each program, including the requirements specific to each program that should be tested using the guidance in this part.

Administrative Requirements

The administrative requirements that apply to most programs arise from two sources: the "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (also known as the "A-102 Common Rule") and OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations," and the agencies' codification of OMB Circular A-110. The applicable guidance followed depends on the type of organization undergoing audit. Other administrative compliance requirements unique to a single program or a cluster of programs, are provided in the Special Tests and Provisions sections of Parts 4 and 5.

State, Local, and Indian Tribal Governments

Governmentwide guidance for administering grants and cooperative agreements to States, local governments, and Indian tribal governments is contained in the A-102 Common Rule which was codified by each Federal funding agency in its volume of the *Code of Federal Regulations*. The A-102 Common Rule section numbers are referred to without the Federal agency's part number (e.g., §____.37 would refer to sections in all agency regulations). This allows auditors to refer to the same section numbers when discussing administrative issues with different Federal funding agencies.

These requirements apply to all grants and subgrants to governments, except grants and subgrants to State or local (public) institutions of higher education and hospitals, and except where they are inconsistent with Federal statutes or with regulations authorized in accordance with the exception provision of the A-102 Common Rule. Block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and several other specifically identified grants or

payment programs are exempted from the A-102 Common Rule. Appendix I to this Compliance Supplement lists legislation and programs where exclusions exist.

In some cases the A-102 Common Rule permits States to follow their own laws and procedures, e.g., when addressing equipment management. These are noted in the sections that follow. The auditor will have to refer to an individual State's rules in those situations.

Non-Profit Organizations

The major source of requirements applicable to institutions of higher education, hospitals and other non-profit organizations is OMB Circular A-110. The provisions of OMB Circular A-110 are codified in agency regulations, generally following the section numbers in the circular. The OMB Circular A-110 section numbers are referred to similar to the A-102 Common Rule references. However, unlike the A-102 Common Rule, agencies with OMB approval, could modify certain provisions of A-110 to meet their special needs. OMB Circular A-110 states "Federal agencies responsible for awarding and administering grants . . . shall adopt the language in the circular unless different provisions are required by Federal statute or are approved by OMB." Subpart A, §____.4, of OMB Circular A-110 states that "Federal awarding agencies may apply more restrictive requirements to a class of recipients when approved by OMB." Federal awarding agencies may apply less restrictive requirements when awarding small awards, except for those requirements which are statutory. Exceptions on a case-by-case basis may also be made by Federal awarding agencies.

Appendix II to this supplement contains a list of agencies that have codified OMB Circular A-110 and the CFR citations for these codifications.

Subrecipients

Governmental subrecipients are subject to the provisions of the A-102 Common Rule. However, the A-102 Common Rule permits States to impose their own requirements on their governmental subrecipients, e.g., equipment management or procurement. Thus, in some circumstances, the auditor may need to refer to State rules and regulations rather than Federal requirements.

All subrecipients who are institutions of higher education, hospitals, or other non-profits, regardless of the type of organization making the subaward, shall follow the provisions of OMB Circular A-110 as implemented by the agency when awarding or administering subgrants except under block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and the Job Training Partnership Act where State rules apply instead.

Compliance Requirements, Audit Objectives, and Suggested Audit Procedures

Auditors shall consider the compliance requirements and related audit objectives in Part 3 and Part 4 or 5 (for programs included in this Supplement) in every audit of non-Federal entities conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does

not apply to the particular non-Federal entity or that noncompliance with the requirement could not have a material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-Federal entity charges only small amounts of purchases to a major program). The descriptions of the compliance requirements in Parts 3, 4, and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

The suggested audit procedures are provided to assist auditors in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

The suggested procedures are in lieu of specifying audit procedures for each of the programs included in this Supplement. This approach has several advantages. First, it provides guidelines to assist auditors in designing audit procedures that are appropriate in the circumstance. Second, it helps auditors develop audit procedures for programs that are not included in this Supplement. Finally, it simplifies future updates to this Supplement.

Internal Control

Because of the diversity of systems in place among non-Federal entities, Part 3 does not include suggested audit procedures to test internal control. The auditor must determine appropriate procedures to test internal control on a case by case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

A. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirements

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs, as applicable. This type of compliance requirement specifies the activities that can or cannot be funded under a specific program.

Audit Objectives

Determine whether Federal awards were expended only for allowable activities.

Suggested Audit Procedures

1. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

2. When allowability is determined based upon summary level data, perform procedures to verify that:

   a. Activities were allowable.

   b. Individual transactions were properly classified and accumulated into the activity total.

3. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.

4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

B. ALLOWABLE COSTS/COST PRINCIPLES

Applicability of OMB Cost Principles Circulars

The following OMB cost principles circulars prescribe the cost accounting policies associated with the administration of Federal awards by non-profit organizations, States, local governments, and Indian tribal governments. However, for block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and the Job Training Partnership Act, State rules for expenditures of State funds apply (Appendix 1). Federal awards include Federal programs and cost-type contracts and may be in the form of grants, contracts, and other agreements.

- OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments"

- OMB Circular A-21, "Cost Principles for Educational Institutions"

- OMB Circular A-122, "Cost Principles for Non-Profit Organizations"

States, local governments, and Indian tribal governments are subject to OMB Circular A-87. All institutions of higher education are subject to the cost principles contained in OMB Circular A-21 which incorporates the four Cost Accounting Standards Board (CASB) Standards and the Disclosure Statement (DS-2) requirements as described in paragraphs C.10 through C.14 and Appendices A and B of OMB Circular A-21. Non-profit organizations are subject to OMB Circular A-122, except those non-profit organizations listed in Attachment C of OMB Circular A-122. These non-profit organizations are not subject to OMB Circular A-122 but are subject to the commercial cost principles contained in the Federal Acquisition Regulation (FAR). Also, by contract terms and conditions, some non-profit organizations may be subject to the CASB's Standards and the Disclosure Statement (DS-1) requirements.

Federal awards administered by publicly-owned hospitals and other providers of medical care are exempt from OMB's cost principles circulars, but are subject to requirements promulgated by the sponsoring Federal agencies (45 CFR part 74, appendix E).

The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government or indirectly through a pass-through entity.

The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates (e.g., methodologies used to recover facilities and administrative costs (F&A) at institutions of higher education).

The cost principles articulated in the three circulars are in most cases substantially identical but a few differences do exist. These differences are necessary because of the nature of the Federal/State/local/non-profit organization relationship, programs administered, and breadth of services offered by some grantees and not others. Exhibit 1, Selected Cost Items Not Treated the Same Among the Circulars, lists selected cost items for which treatment are not substantially

identical among the cost principles circulars. Exhibit 2, Selected Unallowable Cost Items, lists selected items that are unallowable in one or more of the cost principles circulars.

Compliance Requirements - Allowability of Costs - General Criteria (applicable to both direct and indirect costs)

The general criteria affecting allowability of costs under Federal awards are:

- Costs must be reasonable and necessary for the performance and administration of Federal awards.

- Costs must be allocable to the Federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objective in accordance with relative benefits received.

- Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances was allocated to the Federal award as an indirect cost.

- Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State or local laws, sponsored agreements or other governing regulations as to types or amounts of cost items.

- Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs. Examples of such transactions include purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments for overpayments or erroneous charges.

- Costs must be documented in accordance with OMB Circular A-110 for non-profit organizations or the A-102 Common Rule for State, local and Indian Tribal governmental units.

Compliance Requirements - Indirect Costs

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project.

In order to recover indirect costs, organizations must prepare cost allocation plans (CAPs) which apply only to States, local and Indian tribal governments or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in OMB's circulars. States, major local governments, Indian tribal governments, institutions of higher education, and non-profit organizations must submit CAPs or IDCRPs to the Federal cognizant agency for indirect cost negotiation for

approval. Other organizations, such as smaller local governments, must prepare the appropriate CAPs or IDCRPs and maintain them on file for review. These other organizations may use the allocation methods and indirect cost rate maintained on file for cost recovery.

At institutions of higher education, indirect costs include the following categories: building and equipment depreciation or use allowance, operation and maintenance expenses, interest expenses, general administrative expenses, departmental administration expenses, library expenses, and student administration expenses.

At non-profit organizations, indirect costs generally include general administrative costs (e.g., the president's office, payroll, general accounting) and facility costs (e.g., rental costs, operations and maintenance, interest expense) that are not treated as direct costs.

The indirect cost proposals prepared by institutions of higher education and other non-profit organizations are based on the most current financial data supported by the organization's accounting system and audited financial statements. These indirect cost proposals can be used to either establish predetermined or fixed indirect cost rates, or to establish or finalize provisional rates.

There are three types of plans/proposals submitted by States, local governments, and Indian tribal governments:

1. *State and Local Governmentwide CAPs* - These plans are used to allocate service center costs (or Section I costs) to individual departments and agencies and describe the methods used for charging billed costs (or Section II costs) to individual user organizations or activities.

2. *Department or Local IDCRP* - These rate proposals combine the billed and allocated costs from the State-wide or local-wide plan with departmental or local level indirect costs and compute an indirect cost rate to be used in charging indirect costs to individual programs and activities.

3. *Public Assistance CAPs* - These CAPs describe the methods for allocating State-wide or local-wide allocated and/or billed indirect costs and departmental indirect, administrative, and operating costs of State or local welfare or human services organizations to the Medicaid, Food Stamps and welfare programs, etc. These plans are required by the terms of 45 CFR part 95, which incorporates OMB Circular A-87 by reference, and they must be revised and resubmitted to the Federal Government whenever an organizational or programmatic change invalidates the currently-approved allocation method.

At States, local governments, and Indian tribal governments, indirect costs are accumulated at two levels: the State/local-wide level and the department/agency level. At the State/local-wide level, indirect costs include: (1) central service costs that are allocated (referred to as Section I costs, which typically include general accounting, personnel, and purchasing); and, (2) central service costs that are billed (referred to as Section II costs, which typically include computer

services, motor pool, insurance, and fringe benefits). Certain costs, such as facilities and operations and maintenance, can be classified as Section I or Section II costs by State/local governments.

At State or local governmental departments or agencies, where Federal awards are usually carried out, indirect costs normally include the facilities and administrative costs of each department or agency and the allocated central service costs distributed through the State/local-wide CAP. Additionally, Section II costs are direct charges to these departments or agencies. As such, these direct billings may be charged directly to Federal awards or be included in the department or agency indirect cost pools.

CAPs are comprised of two parts: a narrative section that describe the service cost center and allocation methodologies, and a mathematical allocation of these service center costs to the user departments using the described allocation methods. CAPs and IDCRPs prepared by States, local governments, and Indian tribal governments usually are prepared on a prospective basis using actual financial data for a prior year or budget data for the current year. When the actual costs for the year covered by the CAP (or a rate agreement with respect to a fixed rate) are determined, the difference between the costs recovered based on the CAP (or rate agreement) and the costs that would have been recovered had the CAP or rate agreement been based on actual results is either carried forward to a subsequent CAP or IDCRP or used to adjust individual awards on a retroactive basis, with the approval of the Federal cognizant agency for indirect cost negotiation.

Three different types of indirect cost rates can be used by the Federal cognizant agency for indirect cost negotiation: predetermined, fixed, and provisional/final. Predetermined rates are established for the current or multiple future period(s) based on current data (usually data from the most recently ended fiscal year, known as the base period). Predetermined rates are not subject to adjustment, except under very unusual circumstances. Fixed rates are based on current data in the same manner as predetermined rates, except that the difference between the costs of the base period used to establish the rate and the actual costs of the current period is carried forward as an adjustment to the rate computation for a subsequent period. Provisional rates are temporary rates used for funding and billing indirect costs, pending the establishment of a final rate for a period.

Special Compliance Requirements

Disclosure Statements

OMB Circular A-21 requires institutions of higher education that receive more than $25 million in Federal funding in a fiscal year to prepare and submit a DS-2 that describes the institution's cost accounting practices. These institutions are required to submit a DS-2 within six months after the end of the institution's fiscal year that begins after May 8, 1996, unless the institution is required to submit a DS-2 earlier due to a receipt of a cost accounting standard covered contract in accordance with 48 CFR section 9903.202-1.

These institutions are responsible for maintaining an accurate DS-2 and complying with disclosed cost accounting practices. They are also responsible for filing amendments to the DS-2 when disclosed practices are changed or modified.

Also, by contract terms and conditions, some non-profit organizations may be subject to the CASB's Standards and the DS-1 requirements.

Large Research Facilities Construction Costs

OMB Circular A-21 requires that for large research facilities (those with construction costs of more than $10 million) of which 40 percent or more of total assignable space is expected for Federal use, an educational institution (institution) must maintain an adequate review and approval process to ensure that construction costs are reasonable. The review process shall address and document relevant factors affecting construction costs, such as:

- Life cycle costs
- Unique research needs
- Special building needs
- Building site preparation
- Environmental consideration
- Federal construction code requirements
- Competitive procurement practices

The approval process shall include review and approval of the projects by the institution's Board of Trustees or other independent entities.

OMB Circular A-21 also requires that for research facilities costing more than $25 million, of which 50 percent or more of total assignable space is expected for Federal use, the institution must document the review steps performed to assure that construction costs are reasonable. The review should include an analysis of construction costs and a comparison of these costs with relevant construction data, including the National Science Foundation data for research facilities based on its biennial survey, "Science and Engineering Facilities at Colleges and Universities."

Audit Objectives (Both Direct and Indirect Costs)

Determine whether the organization complied with the provisions of the applicable OMB cost principles circulars (OMB Circulars A-87, A-21, A-122) or CASB Standards as follows:

1. Direct charges to Federal awards were for allowable costs.

2. Charges to cost pools used in calculating indirect cost rates were for allowable costs.

3. For States, local governments, and Indian tribal governments, charges to cost pools allocated to Federal awards though CAPs were for allowable costs.

4. The methods of allocating the costs are in accordance with the applicable cost principles or CASB Standards and produce an equitable and consistent distribution of costs (e.g., cost allocation bases include all allowable and unallowable base costs to which allowable indirect costs are allocable and the cost allocation methodology complies with the applicable cost principles and provides equitable and consistent allocation of indirect costs to benefitting cost objectives).

5. Indirect cost rates were applied in accordance with approved rate agreements and associated billings were the result of applying the approved rate to the proper base amount(s).

6. For States, local governments, and Indian tribal governments, cost allocations were in accordance with CAPs approved by the Federal cognizant agency for indirect cost negotiation or, in cases where such plans are not subject to approval, in accordance with the plan on file.

7. Cost accounting practice disclosures, described in the DS-1 or DS-2 (including amendments), represented actual practice consistently applied. This objective only applies to non-Federal entities that are required to submit the DS-1 or DS-2.

8. The institution's review of large research facilities under construction was documented as required.

Suggested Audit Procedures (Both Direct and Indirect Costs)

General

1. The following procedures apply to direct charges to Federal awards as well as to charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs from Federal awards. If the auditor identifies unallowable costs, the auditor should be aware that "directly associated costs" may have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are "directly associated" with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.

   Test a sample of transactions for conformance with the following criteria contained in the "Basic Guidelines" section of applicable OMB cost principles circulars.

   a. For State and local governments, authorized or not prohibited under State or local laws or regulations.

   b. Approved by the Federal awarding agency, if required.

c. Conform with the allowability of costs provisions of applicable cost principles, or limitations in the program agreement, program regulations, or program statute.

d. Conform with the allocability provisions of applicable cost principles or CASB Standards.

e. Represent charges for actual costs, not budgeted or projected amounts.

f. With respect to fringe benefit allocations, charges, or rates, such allocations, charges, or rates are based on the benefits received by different classes of employees within the organization.

g. Applied uniformly to Federal and non-Federal activities.

h. Given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives.

i. Calculated in conformity with CASB Standards, generally accepted accounting principles, or another comprehensive basis of accounting, when required under the applicable cost principles or CASB Standards. Costs for post-employment benefits must be funded to be allowable.

j. Not included as a cost or used to meet cost sharing requirements of other Federally-supported activities of the current or a prior period.

k. Net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.

l. Not included as both a direct billing and as a component of indirect costs, e.g., excluded from cost pools included in CAPs and/or IDCRPs, if charged directly to Federal awards.

m. Supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages, and time and effort distribution are described in applicable cost principles. Documentation may be in an electronic form.

Internal service, central service, pension, or similar activities or funds

2. When material charges are made from internal service, central service, pension, or similar activities or funds, the auditor should verify that the charges from these activities or funds are in accordance with the applicable cost principles. The auditor should consider procedures, such as:

a. For activities accounted for in separate funds, ascertain if: (1) retained earnings/fund balances (including reserves) were computed in accordance with the applicable cost principles; (2) working capital was not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs and debt principal costs); and, (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service or central service funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.

b. Test that all users of services are billed in a consistent manner.

c. Test that billing rates exclude unallowable costs, in accordance with applicable cost principles.

d. Test, where activities are not accounted for in separate funds, that billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.

e. For organizations that have self-insurance and a certain type of fringe benefit programs (e.g. pension funds), ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study which is not over two years old.

IDCRP (Testing of the proposal)

3. The IDCRP is based upon costs charged to cost pools representing costs of a base year. The base year often precedes the year in which the IDCRP is prepared and the year the resulting Indirect Cost Rate Agreement (IDCRA) is used to charge indirect costs. For example, a non-Federal entity may submit an IDCRP in January 1998, based upon costs incurred and charged to cost pools during fiscal year ending June 30, 1997 (1997), the base year. The resulting IDCRA negotiated during the year ending June 30, 1998 (1998) would be used as the basis for charging indirect costs to Federal awards in the year ended June 30, 1999 (1999). For this example, the term IDCRA will also include an IDCRP which is not required to be submitted to the Federal agency for indirect cost negotiation but is retained on file and is used to charge indirect costs to Federal awards the same as an approved plan resulting in an IDCRA.

An audit timing consideration is that the audit for 1997 (which covers the applicable cost pools) may be completed before the IDCRP is submitted. Therefore, as part of the 1997 audit, the auditor cannot complete testing of the IDCRP. Also, if the auditor waits to test the IDCRP until 1999 (the year when this IDCRP is first used to charge Federal awards), the auditor would be testing 1997 records, which would then be two years old.

Continuing this example, when the IDCRA is the basis for material charges to a major program in 1999, the auditor for 1999 is required to obtain appropriate assurance that the costs collected in the cost pools and allocation methods are in compliance with the applicable cost principles. The following are some acceptable options the auditor may use to obtain this assurance:

- Perform interim testing of the costs charged to cost pools (e.g., determine from management the cost pools that management expects to include in the IDCRP and test the costs charged to those pools for compliance with the cost principles circulars) during the 1997 audit. As part of the 1998 audit, complete testing and verify management's representation against the IDCRP finally submitted in 1998.

  Test costs charged to the cost pools underlying the IDCRP during the audit of 1998, the year immediately following the base year. This would require testing of 1997 transactions.

  Wait until 1999, the year in which charges from the IDCRA are material to a major program and test costs charged to cost pools (1997) used to prepare the IDCRP. This is a much more difficult approach because it requires going back two years to audit the cost charged to cost pools of the base year.

  Advantages of the first two methods are that the testing of the costs charged to the cost pools occurs closer to the time when the transactions occur (which makes the testing easier to perform) and should there be audit exceptions, corrective action may be taken earlier to minimize questioned costs (which makes audit exceptions easier to resolve). When material indirect costs are charged to any Type A program (determined in accordance with Circular A-133), auditors are strongly encouraged to use one of the first two methods. This is because under the risk-based approach, described in OMB Circular A-133, all Type A programs are required to be considered major programs at least once in every three years and the IDCRA is usually used to charge Federal awards for at least three years.

When the auditee submits the IDCRP, the auditee provides written assurances to the Federal government that the plan includes only allowable costs. Accordingly, any material unallowable costs reflected in the IDCRP should be reported as an audit finding in the year in which they are first found by audit.

An IDCRP may result in an IDCRA that covers only one year, but most often results in a multi-year IDCRA. When an IDCRP has been tested in a prior year and this testing provides the auditor appropriate audit assurance, in subsequent years the auditor is only required to perform tests to ascertain if there have been material changes to the cost accounting practices, including practices that would affect either the cost pools or the allocation base and, if so, that the Federal cognizant agency for indirect cost negotiation has been informed.

The auditor should take appropriate steps to coordinate testing of costs charged to cost pools supporting an IDCRP with the auditee and, as appropriate, with the Federal cognizant agency for indirect cost negotiation. The auditor should consider consulting with the auditee in the base year and the year in which the IDCRP is submitted to determine the best (e.g., most efficient) alternative under the circumstances.

The following procedures are applicable when material charges are made to a major program based upon an IDCRP:

a. Ascertain if the IDCRP has been tested in a prior year.

(1) When the testing performed in a prior year provides appropriate audit assurance, further review of the IDCRP is not required unless there have been material changes to cost accounting practices supporting the IDCRP. To ascertain if there have been material changes, the auditor should inquire of auditee management as to whether any changes have been made to the cost accounting practices and the likely effect of these changes.

(2) When the auditor believes the changes in cost accounting practices are material, and the auditee is required the file the IDCRP with a Federal cognizant agency for indirect cost negotiation, the auditor should ascertain if the Federal cognizant agency for indirect cost negotiation has been appropriately notified of the changes in cost accounting practices. For non-Federal entities that are required to file a DS-1 or DS-2, this testing is performed in Step 6, "DS-1 and DS-2 Requirements."

When prior testing of the IDCRP does not provide appropriate audit assurance (e.g., was not performed).

b. Test the cost pools which form the basis of the IDCRP and the resulting charges to Federal awards to ascertain if they include only allowable costs in accordance with the cost principles or CASB Standards, as applicable. Suggested audit procedure number 1 provides guidance for specific tests.

c. Test the methods of allocating the costs to ascertain if they are in accordance with the provisions of the cost principles or CASB Standards, as applicable, and produce an equitable distribution of costs. Appropriate detailed tests may include:

(1) Test statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.

(2) Review time studies or time and effort reports (where and if used) to ascertain if they are mathematically and statistically accurate, are implemented as approved, and are based on the actual effort devoted to the

various functional and programmatic activities to which the salary and wage costs are charged.

(3) Review the allocation methodology for consistency and test the appropriateness of methods used to make changes.

CAP (Testing of the plan)

4. Since costs allocated through CAPs may include current year and prior year costs, the auditor should test the costs charged to cost pools supporting CAPs and the methods of allocating costs from CAPs in each year when these costs are material to a major program. The auditor should consider the following procedures:

a. Test the cost pools which form the basis of the CAP and the resulting charges to Federal awards to ascertain if they include only allowable costs in accordance with the applicable cost principles. Suggested audit procedure number 1 provides guidance for specific tests.

b. Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of the cost principles and produce an equitable distribution of costs. Appropriate detailed tests may include:

(1) Test statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.

(2) Review time studies or time and effort reports (where and if used) to ascertain if they are mathematically and statistically accurate, are implemented as approved, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.

(3) Review the allocation methodology for consistency and test the appropriateness of methods use to make charges changes.

IDCRA and CAPs (Testing of charges based upon plans)

5. Perform the following procedures to test the application of charges to Federal awards based upon an IDCRA and a CAP.

a. Ascertain if material indirect costs or centralized or administrative services costs were allocated or charged to a major program. If not, the following suggested audit procedures b through e do not apply.

b. Obtain and read the current IDCRA and/or CAP and determine the terms in effect.

Indirect Cost Rate Agreements

c. Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current year direct costs do not include costs items that were treated as indirect costs in the base year).

Public Assistance CAPs (for States, local governments, and Indian tribal governments only)

d. Verify that the methods of charging costs to Federal awards are in accordance with the provisions of the approved CAP or prepared CAP on file.

State and Local Government-Wide CAPs

e. Ascertain if the amounts used for reimbursement of central service costs for Federal awards were in accordance with the approved CAPs or plans on file, when approval is not required.

DS-1 and DS-2 Requirements (For applicable non-Federal entities)

6. Perform the following procedures for the DS-1 or DS-2, as applicable:

a. Read the DS-1 or DS-2 and its amendments and ascertain if the disclosures agree with the policies prescribed in the institution's policies and procedures documents.

b. Test that the disclosures agree with actual practices for the period covered by audit, including whether the practices were consistent throughout the period.

Large Research Facilities Construction Costs (For applicable educational institutions)

7. Perform the following procedures related to large research facilities:

a. Ascertain if the institution had large research facilities as defined in OMB Circular A-21 under construction. If not the following suggested audit procedures b and c do not apply.

b. For large research facilities under construction of which 40 percent or more of total assignable space is expected for Federal use, review the institution's approval process that should include board minutes or other documentation to ascertain if the institution's Board of Trustees or other independent entity reviewed and approved these construction projects.

c. For research facilities under construction costing more than $25 million of which 50 percent or more of total assignable space is expected for Federal use, ascertain if the institution documented the review steps performed to assure that construction costs are reasonable.

COMPARISON AMONG OMB COST PRINCIPLES CIRCULARS

The following two exhibits provide comparisons between the OMB cost principles circulars. Exhibit 1 lists selected cost items for which treatment are not substantially identical among the three circulars. Exhibit 2 lists selected items that are unallowable in one or more of the cost principles circulars.

Several cost items are unique to one type of entity and not to other entities (e.g., commencement & convocation costs are only applicable to universities). The numbers in parentheses refer to the cost item in the applicable circulars.

Selected Cost Items Not Treated the Same Among the Circulars **Exhibit 1**

Selected Cost Items	A-87 - State, Local & Indian Tribal Governments	A-21 - Educational Institutions	A-122 - Non-Profit Organizations
Advertising & Public Relations	Allowable with restrictions - (2)	Allowable with restrictions - (1)	Allowable with restrictions - (1)
Bad Debts	Unallowable unless provided in program regulations - (7)	Unallowable	Unallowable - (3)
Bonding	Allowable - (8)	Not Addressed	Allowable - (5)
Civil Defense (local)	Not Addressed	Allowable with restrictions - (5)	Not Addressed
Compensation for Personal Services	Unique criteria for support - (11)	Unique criteria for support - (8)	Unique criteria for support - (7)
Defense & Prosecution of Criminal & Civil Proceedings	Allowable with restrictions - (14)	Allowable with restrictions - (11)	Allowable with restrictions - (10)
Goods or Services for Personal Use	Not Addressed	Unallowable - (19)	Unallowable - (18)

Selected Cost Items Not Treated the Same Among the Circulars **Exhibit 1**

Selected Cost Items	A-87 - State, Local & Indian Tribal Governments	A-21 - Educational Institutions	A-122 - Non-Profit Organizations
Housing & Personal Living Expenses	Not Addressed	Unallowable - (20)	Unallowable as overhead costs - (19)
Idle Facilities	Allowable with restrictions - (24)	Not Addressed	Allowable with restrictions - (20)
Interest, Fund Raising & Investment	Allowable with restrictions - (21, 26)	Allowable with restrictions - (22)	Allowable with restrictions - (23)
Lobbying	Unallowable (certain exceptions at State/local level) - (27)	Unallowable - (17, 24)	Unallowable - (21)
Memberships, Subscriptions, & Professional Activities	Allowable for civic, community & social organizations with Federal approval - (30)	Unallowable for civic, community & social organizations - (28)	Unallowable for civic, community & social organizations - (30)
Organizational Costs	Not Addressed	Not Addressed	Allowable with prior approval - (31)
Patents	Not Addressed	Allowable with restrictions - (29)	Allowable with restrictions - (35)
Professional Services Costs	Allowable with restrictions - (33)	Allowable with restrictions - (32)	Allowable with restrictions - (39)
Proposal Costs	Allowable with restrictions - (34)	Allowable with restrictions - (34)	Not Addressed
Publication & Printing	Allowable (35)	Not Addressed	Allowable with restrictions - (41)
Recruiting Costs	Allowable with restrictions - (2)	Allowable with restrictions - (37.b)	Allowable with restrictions - (44)

Selected Cost Items Not Treated the Same Among the Circulars **Exhibit 1**

Selected Cost Items	A-87 - State, Local & Indian Tribal Governments	A-21 - Educational Institutions	A-122 - Non-Profit Organizations
Relocation Costs	Not Addressed	Allowable with restrictions - (37.b)	Allowable with restrictions - (45)
Royalties	Not Addressed	Allowable with restrictions - (39)	Allowable with restrictions - (47)
Selling & Marketing	Not Addressed	Unallowable - (42)	Unallowable - (48)
Specialized Services Facilities	Not Addressed	Allowable with restrictions - (44)	Allowable with restrictions - (50)
Substantial Relocation - Interest Provision	Possible adjustment if relocated within useful life - (26)	Possible adjustment if relocated within 20 years - (22)	Possible adjustment if relocated within 20 years - (23)
Taxes	Allowable with restrictions - (39)	Allowable with restrictions - (46)	Allowable with restrictions - (51)
Termination Costs	Not Addressed	Allowable with restrictions - (49)	Allowable with restrictions - (52)
Training	Allowable for employee development - (40)	Allowable - (8.f)	Allowable with limitations - (53)
Travel	Allowable with restrictions - (41)	Allowable with restrictions - (48, 50)	Allowable with restrictions - (55)
Trustees (travel expense)	Not addressed	Unallowable - (50)	Allowable with restrictions - (56)

Selected Unallowable Cost Items			Exhibit 2
Selected Cost Items	A-87 - State, Local & Indian Tribal Governments	A-21 - Educational Institutions	A-122 - Non-Profit Organizations
Advertising & Public Relations	Allowable with restrictions - (2)	Allowable with restrictions - (1)	Allowable with restrictions - (1)
Alcoholic Beverages	(4)	(2)	Unallowable - (2)
Alumni Activities	Not Applicable	(3)	Not Applicable
Audit Services	Allowable with restrictions - (5) and as addressed in OMB Circular A-133	Allowable with restrictions as addressed in OMB Circular A-133	Allowable with restrictions as addressed in OMB Circular A-133
Civil Defense (local)	Not Addressed	Allowable with restrictions - (5)	Not Addressed
Commencement & Convocations	Not Applicable	(6)	Not Applicable
Compensation - Institution Automobile	Not Addressed	(8.g)	Unallowable as overhead costs - (7g)
Contingencies	(12)	(9)	(8)
Defense & Prosecution of Criminal & Civil Proceedings	Allowable with restrictions - (14)	Allowable with restrictions - (11)	Allowable with restrictions - (10)
Donations & Contributions	(13)	(13)	(9, 12)
Entertainment	(18)	(15)	(14)
Fines and Penalties	Allowable with restrictions - (20)	Allowable with restrictions - (18)	Allowable with restrictions - (16)
General Government Expenses	(23)	Not Applicable	Not Applicable

Selected Unallowable Cost Items **Exhibit 2**

Selected Cost Items	A-87 - State, Local & Indian Tribal Governments	A-21 - Educational Institutions	A-122 - Non-Profit Organizations
Goods or Services for Personal Use	Not Addressed	Unallowable - (19)	Unallowable - (18)
Housing & Personal Living Expenses	Not Addressed	(20)	Unallowable as overhead costs - (19)
Idle Facilities	Allowable with restrictions - (24)	Not Addressed	Allowable with restrictions - (20)
Insurance & Indemnification	Allowable with restrictions - (25)	Allowable with restrictions - (21)	Allowable with restrictions - (22)
Interest, Fund Raising & Investment	Allowable with restrictions - (21, 26)	Allowable with restrictions - (22)	Allowable with restrictions - (23)
Lobbying	Unallowable except at State/local level - (27)	(17, 24)	(25)
Losses on Other Sponsored Programs	(42)	(25)	(26)
Memberships, Subscriptions & Professional Activities	Allowable with restrictions - (30)	Allowable with restrictions - (28)	Allowable with restrictions - (30)
Organizational Costs	Not Addressed	Not Addressed	Allowable with prior approval - (31)
Patents	Not Addressed	Allowable with restrictions - (29)	Allowable with restrictions - (35)
Pre-Agreement Costs	Allowable with restrictions - (32)	Allowable with restrictions - (31)	Allowable with restrictions - (38)

Selected Unallowable Cost Items **Exhibit 2**

Selected Cost Items	A-87 - State, Local & Indian Tribal Governments	A-21 - Educational Institutions	A-122 - Non-Profit Organizations
Publication & Printing	Allowable (35)	Not Addressed	Allowable with restrictions - (41)
Recruiting Costs	Allowable with restrictions - (2)	Allowable with restrictions - (37.b)	Allowable with restrictions - (44)
Relocation Costs	Not Addressed	Allowable with restrictions - (37.b)	Allowable with restrictions - (45)
Selling & Marketing	Not Addressed	(42)	Unallowable as overhead costs - (48)
Severance Pay	Allowable with restrictions - (11.g)	Allowable with restrictions - (43)	Allowable with restrictions - (49)
Student Activity Costs	Not Applicable	(45)	Not Applicable
Taxes	Allowable with restrictions - (39)	Allowable with restrictions- (46)	Allowable with restrictions (51)
Termination Costs	Not Addressed	Allowable with restrictions - (49)	Allowable with restrictions - (52)
Travel - First Class	(41)	(48)	(55)
Trustees (travel expense)	Not Applicable	(50)	Allowable with restrictions - (56)
Under recovery of Costs on Federal Agreements	(42)	(25)	(26)

C. CASH MANAGEMENT

Compliance Requirements

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Interest earned on advances by local government grantees and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to $100 per year may be kept for administrative expenses. Interest earned by non-State nonprofit entities on Federal fund balances in excess of $250 is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.

Treasury regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA) (Pub. L. No. 101-453), require State recipients to enter into agreements which prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

The requirements for cash management are contained in the OMB Circular 102 (Paragraph 2.a.), the A-102 Common Rule (§___.21), OMB Circular A-110 (§___.22), Treasury regulations at 31 CFR part 205, Federal awarding agency regulations, and the terms and conditions of the award.

Availability of Other Information

The U.S. Treasury, Financial Management Service maintains a Cash Management Improvement Act page on the Internet (http://www.fms.treas.gov/cmia/).

Audit Objectives

Determine whether:

1. The recipient/subrecipient followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and their disbursement.

2. States have complied with the terms and conditions of the Treasury-State Agreement or Subpart B procedures prescribed by Treasury.

3. The pass-through entity implemented procedures to assure that subrecipients conformed substantially to the same timing requirements that apply to the pass-through entity.

4. Interest earned on advances was reported/remitted as required.

Suggested Audit Procedures

Note: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.

States

1. For programs tested as major for States, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in Appendix A to subpart A of 31 CFR part 205 (31 CFR section 205.4).

2. For those programs identified in procedure 1, determine the funding techniques used for those programs. For those funding techniques that require clearance patterns to schedule the transfer of funds to the State, review documentation supporting the clearance pattern and verify that the clearance pattern conforms to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement (31 CFR sections 205.8 and 205.9(b)(4)).

3. Select a sample of Federal cash draws and verify that:

   a. The timing of the Federal cash draws were in compliance with the applicable funding techniques specified in the Treasury-State Agreement or Subpart B procedures, whichever is applicable (31 CFR sections 205.7 and 205.20).

   c. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional Federal cash draws as required by the A-102 Common Rule (§___.21) and OMB Circular A-110 (§___.22).

4. Where applicable, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request (31 CFR section 205.7(c)(5)).

5. Review the calculation of the interest obligation owed to or by the Federal Government, reported on the annual report submitted by the State to ascertain that the calculation was in accordance with Treasury regulations and the terms of the Treasury-State Agreement

or Subpart B procedures. Trace amounts used in the calculation to supporting documentation.

States and Other Recipients

6. For those programs where Federal cash draws are passed through to subrecipients:

   a. Select a representative sample of subrecipients and ascertain the procedures implemented to assure that subrecipients minimize the time elapsing between the transfer of Federal funds from the recipient and the pay out of funds for program purposes (A-102 Common Rule§___.37(a)(4)).

   b. Select a representative sample of Federal cash draws by subrecipients and ascertain that they conformed to the procedures.

Other Recipients and Subrecipients

7. For those programs which received advances of Federal funds, ascertain the procedures established with the Federal agency or pass-through entity to minimize the time between the transfer of Federal funds and the pay out of funds for program purposes.

8. Select a sample of Federal cash draws and verify that:

   a. Established procedures to minimize the time elapsing between drawdown and disbursement were followed.

   b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by the A-102 Common Rule (§___.21) and OMB Circular A-110 (§___.22).

9. Where applicable, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

10. Review records to determine if interest was earned on Federal cash draws. If so, review evidence to ascertain whether it was returned to the appropriate agency.

D. DAVIS-BACON ACT

Compliance Requirements

When required by the Davis Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a to 276a-7).

Availability of Other Information

The U.S. Department of Labor, Employment Standards Administration, maintains a Davis-Bacon and Related Acts Internet page (http://www.dol.gov/dol/esa/public/programs/dbra/index.html).

Audit Objective

Determine whether the non-Federal entity ensured that contractors and subcontractors paid prevailing wage rates for projects covered by the Davis-Bacon Act.

Suggested Audit Procedures

1. Ascertain if the non-Federal entity receives F : leral funds for construction projects; if so, review program/project requirements to ascertain if the program/project is covered by the Davis-Bacon Act.

2. Select a sample of construction contracts and subcontracts and verify that the required prevailing wage rate clauses were included in contracts for construction which exceed $2000.

3. Determine the prevailing wage rates applicable at the time of the construction payroll. (DOL's Wage and Hour Division publishes a Register of Wage Determinations. Subscribers to the Davis-Bacon Wage Determination Database on FedWorld's Website can obtain wage determinations online at www.fedworld.gov.)

4. Examine a sample of contractor or subcontractor payroll submissions and certifications and ascertain if such submissions indicate that laborers and mechanics were paid the prevailing wage rates established by the DOL for the locality at the time of the construction payroll.

E. ELIGIBILITY

Compliance Requirements

The specific requirements for eligibility are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs, as applicable. This compliance requirement specifies the criteria for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify.

Audit Objectives

Determine whether:

1. Required eligibility determinations were made, (including obtaining any required documentation/verifications) and that individual program participants or groups of participants (including area of service delivery) were determined to be eligible. Only eligible individuals or groups of individuals (including area of service delivery) participated in the program.

2. Subawards were made only to eligible subrecipients.

3. Amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

Suggested Audit Procedures

1. *Eligibility for Individuals*

    a. For some Federal programs with a large number of people receiving benefits, the non-Federal entity may use a computer system for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and will be separate from the non-Federal entity's regular financial accounting system. Typical functions a computer system for eligibility may perform are:
        - Perform calculations to assist in determining who is eligible and the amount of benefits
        - Pay benefits (e.g., write checks)
        - Maintain eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments)
        - Track the period of time an individual is eligible and stop benefits at the end of a predetermined period unless, there is a redetermination of eligibility
        - Perform matches with other computer data bases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased)

- Control who is authorized to approve benefits for eligibles (e.g., an employee may be approving benefits on-line and this process may be controlled by passwords or other access controls)
- Produce exception reports indicating likely errors which need follow-up (e.g., when benefits exceed a certain amount, would not be appropriate for a particular classification of individuals, or are paid more frequently than normal)

Because of the diversity of computer systems, both hardware and software, it is not practical for the Compliance Supplement to provide suggested audit procedures to address each system. However, generally accepted auditing standards provide guidance for the auditor when computer processing relates to accounting information that can materially effect the financial statements being audited. Similarly, when eligibility is material to a major program, and a computer system is integral to eligibility compliance, the auditor should follow this guidance and consider the non-Federal entity's computer processing. The auditor should perform audit procedures relative to the computer system for eligibility as necessary to support the opinion on compliance for the major program. Due to the nature and controls of computer systems, the auditor may choose to perform these tests of the computer systems as part of testing the internal controls for eligibility.

b. Perform procedures to ascertain if the non-Federal entity's records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).

c. Select a sample of individuals receiving benefits and perform tests to ascertain if the:

(1) Non-Federal entity performed the required eligibility determination, (including obtaining any required documentation/verifications) and the individual was determined to be eligible. Specific individuals were eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both.)

(2) Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.

(3) Benefits were discontinued when the period of eligibility expired.

d. In some programs, the non-Federal entity is required to use a quality control process to obtain assurances about eligibility. Review the quality control process and perform tests to ascertain if it is operating to effectively meet the objectives of the process and in compliance with applicable program requirements.

2. *Eligibility for Group of Individuals or Area of Service Delivery*

   a. In some cases, the non-Federal entity may be required to perform procedures to determine whether a population or area of service delivery is eligible. Test information used in determining eligibility and ascertain if the population or area of service delivery was eligible.

   b. Perform tests to ascertain if :

      (1) The population or area served was eligible.

      (2) The benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.

3. *Eligibility for Subrecipients*

   a. If the determination of eligibility is based upon an approved application or plan, obtain a copy of this document and identify the applicable eligibility requirements.

   b. Select a sample of the awards to subrecipients and perform procedures to verify that the subrecipients were eligible and amounts awarded were within funding limits.

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Compliance Requirements

Equipment Management

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Institutions of higher education, hospitals, and other non-profit organizations shall follow the provisions of OMB Circular A-110. Basically the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program which acquired it or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value in excess of $5000, is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

The requirements for equipment are contained in the A-102 Common Rule (§___ 32), OMB Circular A-110 (§___.34), Federal awarding agency program regulations, and the terms and conditions of the award.

Real Property Management

Title to real property acquired by non-Federal entities with Federal awards vests with the non-Federal entity. Real property shall be used for the originally authorized purpose as long as needed for that purpose. For non-Federal entities covered by OMB Circular A-110 and with written approval from the Federal awarding agency, the real property may be used in other Federally-sponsored projects or programs that have purposes consistent with those authorized for support by the Federal awarding agency. The non-Federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency.

When real property is no longer needed for the Federally-supported programs or projects, the non-Federal entity shall request disposition instructions from the awarding agency. (For purposes of this compliance requirement, the awarding agency for recipients under OMB Circular A-110 or the A-102 Common Rule and subrecipients under OMB Circular A-110 is the Federal agency providing the funding. The awarding agency for subrecipients under the A-102 Common Rule is the pass-through entity.) When real property is sold, sales procedures should provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities are normally required to remit to the awarding agency the Federal portion (based on the Federal participation in the project) of net sales proceeds. If retained, the non-Federal entity shall normally compensate the awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title in which case, the non-Federal entity is entitled to compensation for its percentage share of the current fair market value.

The requirements for real property are contained in the A-102 Common Rule (§___.31), OMB Circular A-110 (§___.32), Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

Determine whether the:

1. The non-Federal entity maintains proper records for equipment and adequately safeguards and maintains equipment.

2. Disposition or encumbrance of any equipment or real property acquired under Federal awards is in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

Suggested Audit Procedures

(Procedure 1 only applies to subrecipients of States that are local governments or Indian tribal governments. Procedure 2 only applies to States and to subrecipients of States that are local governments or Indian tribal governments.)

1. Obtain entity's policies and procedures for equipment management and ascertain if they comply with the State's policies and procedures.

2. Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.

(Procedures 3-4 only apply to institutions of higher education, hospitals, and other non-profit organizations; and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)

3. *Inventory Management of Equipment*

   a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.

   b. Identify equipment acquired under Federal awards during the audit period and trace selected purchases to the property records. Verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

   c. Select a sample of equipment identified as acquired under Federal awards from the property records and physically inspect the equipment including whether the equipment is appropriately safeguarded and maintained.

4. *Dispositions of Equipment*

   a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under Federal awards and equipment otherwise acquired.

   b. For dispositions of equipment acquired under Federal awards, perform procedures to verify that the dispositions were properly reflected in the property records.

   c. For dispositions of equipment acquired under Federal awards with a current per-unit fair market value in excess of $5000, test whether the awarding agency was reimbursed for the appropriate Federal share.

(Procedure 5 applies to States, local governments, Indian tribal governments and non-profit organizations regardless of whether funding is received as a recipient or subrecipient.)

5. *Dispositions of Real Property*

   a. Determine real property dispositions for the audit period and ascertain such real property acquired with Federal awards.

   b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency which will normally require reimbursement to the awarding

agency for the Federal portion of net sales or fair market value at the time of disposition, as applicable.

G. MATCHING, LEVEL OF EFFORT, EARMARKING

Compliance Requirements

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs, as applicable.

However, for matching, the A-102 Common Rule (§ ____.24) and OMB Circular A-110 (§ ___.23) provide detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records.
- Are not included as contributions for any other Federally-assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Matching, level of effort and earmarking are defined as follows:

(1) *Matching* or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

(2) *Level of effort* includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.

(3) *Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

Audit Objectives

1. *Matching* - Determine whether the minimum amount or percentage of contributions or matching funds was provided.

2. *Level of Effort* - Determine whether specified service or expenditure levels were maintained.

3. *Earmarking* - Determine whether minimum or maximum limits for specified purposes or types of participants were met.

Suggested Audit Procedures

1. **Matching**

   a. Perform tests to verify that the required matching contributions were met.

   b. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.

   c. Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with the OMB cost principles circulars, the A-102 Common Rule, OMB Circular A-110, program regulations, and the terms of the award.

   d. Test transactions used to match for compliance with the allowable costs/cost principles requirement. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.

2.1 **Level of Effort** - *Maintenance of Effort*

   a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met.

   b. Perform test to verify that only allowable categories of expenditures or other effort indicators (e.g., hours, number of people served) were included in the computation and that the categories were consistent from year to year. For example, in some programs, capital expenditures may not be included in the computation.

   c. Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.

   d. Perform procedures to verify that non-monetary effort indicators were supported by official records.

2.2 **Level of Effort** - *Supplement Not Supplant*

a. Ascertain if the entity used Federal funds to provide services which they were required to make available under Federal, State, or local law and were also made available by funds subject to a supplement not supplant requirement.

b. Ascertain if the entity used Federal funds to provide services which were provided with non-Federal funds in the prior year.

(1) Identify the Federally-funded services.

(2) Perform procedures to determine whether the Federal program funded services that were previously provided with non-Federal funds.

(3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of Federal contribution.

3. **Earmarking**

a. Identify the applicable percentage or dollar requirements for earmarking.

b. Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).

c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.

d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).

e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.

f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type.

H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Compliance Requirements

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of the subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §___.23; OMB Circular A-110, §___.28).

Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status report (SF-269). The Federal agency may extend this deadline upon request (A-102 Common Rule, §___.23).

An example used by a program to determine when an obligation occurs (is made) is found under Part 4, Department of Education, CFDA 84.000 (Cross-Cutting Section).

Audit Objective

Determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period.

Suggested Audit Procedures

1. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of availability and document the availability period.

   Test a sample of transactions charged to the Federal award after the end of the period of availability and verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period.

   Test a sample of transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.

   Select a sample of adjustments to the Federal funds and verify that these adjustments are for transactions that occurred during the period of availability.

I. PROCUREMENT AND SUSPENSION AND DEBARMENT

Compliance Requirements

Procurement

States, and governmental subrecipients of States, shall use the same policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110. All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

Requirements for procurement are contained in the A-102 Common Rule (§____.36), OMB Circular A-110 (§____.40 through §____.48), Federal awarding agency regulations, and the terms of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively are given for each procedure. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

Suspension and Debarment

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 and all nonprocurement transactions (e.g., subawards to subrecipients).

Contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous. Non-Federal entities may, but are not required to, check for suspended and debarred parties which are listed in the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration (GSA). The information contained on the list is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (http://www.arnet.gov/epls). Please note that the user will be required to record their name and organization for purposes of the Computer Matching and Privacy Act of 1988.

Requirements for suspension and debarment are contained in the Federal agencies' codification of the governmentwide debarment and suspension common rule (see Appendix II for CFR cites) which implements Executive Orders 12549 and 12689, Debarment and Suspension, and the terms of the award.

Audit Objectives

Determine whether:

1. Procurements were made in compliance with the provisions of the A-102 Common Rule, OMB Circular A-110, and other procurement requirements specific to an award.

2. The non-Federal entity obtained the required certifications for covered contracts and subawards.

Suggested Audit Procedures

(Procedures 1 - 4 apply only to institutions of higher education, hospitals, and other non-profit organizations; and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)

1. Obtain entity's procurement policies. Verify that the policies comply with applicable Federal requirements (§____.36(b)(1) and §____.43).

2. Ascertain if the entity has a policy to use statutorily or administratively-imposed in-State or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to Federal procurements except where applicable Federal statutes expressly mandate or encourage geographic preference (§____.36(c)(2) and §____.43).

3. Examine procurement policies and procedures and verify the following:

   a. Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals (§____.36(c)(3) and §____.44(a)(3)).

   b. There is a written policy pertaining to ethical conduct (§____.36(b)(3) and §____.42).

4. Select a sample of procurements and perform the following:

   a. Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of

contract type, contractor selection or rejection, and the basis of contract price (§____.36(b)(9) and §____.46).

b. Verify that procurements provide full and open competition (§____.36(c)(1) and §____.43).

c. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (§____.36(b)(1) and (d)(4); and §____.43 and §____.44(e)).

d. Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action (§____.36(f) and §____.45).

e. Verify that the awarding Federal agency approved procurements exceeding $100,000 when such approval was required. Procurements (1) awarded by noncompetitive negotiation, (2) awarded when only a single bid or offer was received, (3) awarded to other than the apparent low bidder, or (4) specifying a "brand name" product (§____.36(g)(1) and §____.44(e)), may require prior Federal awarding agency approval.

f. Verify compliance with other procurement requirements specific to an award.

(Procedure 5 only applies to States and Federal awards subgranted by the State to a local government or Indian tribal government.)

5. Test a sample of procurements to ascertain if the State's laws and procedures were followed and that the policies and procedures used were the same as for State funds.

(Procedures 6 applies to all non-Federal entities)

6. Test a sample of procurements and subawards and ascertain if the required suspension and debarment certifications were received for subawards and covered contracts. Alternatively, the auditor may test a sample of procurements and subawards to *the List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration (GSA) and ascertain if contracts were awarded to suspended or debarred parties.

J. PROGRAM INCOME

Compliance Requirements

Program income is gross income received that is directly generated by the Federally-funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from: fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under Cash Management), rebates, credits, discounts, refunds, etc. (covered under Allowable Costs/Cost Principles), or interest earned on any of them (covered under Cash Management). Program income does not include the proceeds from the sale of equipment or real property (covered under Equipment and Real Property Management).

Program income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements. Unless specified in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays. However, for research and development activities by colleges and universities and other non-profit organizations, the default method is to add program income to the project budget. Unless Federal awarding agency regulations or the terms and conditions of the award specify otherwise, non-Federal entities have no obligation to the Federal Government regarding program income earned after the end of the grant period.

The requirements for program income are found in the A-102 Common Rule (§____.21(payment) and §____.25), OMB Circular A-110 (§____.2 (program income definition), §____.22(payment), and §____.24), Federal awarding agency laws, program regulations, and the provisions of the contract or grant agreements pertaining to the program.

Audit Objective

Determine whether program income is correctly determined, recorded, and used in accordance with the program requirements, A-102 Common Rule, and OMB Circular A-110, as applicable.

Suggested Audit Procedures

1. *Identify Program Income*

   a. Review the laws, regulations, and the provisions of contract or grant agreements applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determinng user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.

b. Inquire of management and review accounting records to ascertain if program income was received.

2. *Determining or Assessing Program Income* - Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that progam income was only collected from allowable sources.

3. *Recording of Program Income* - Perform tests to verify that all program income was properly recorded in the accounting records.

4. *Use of Program Income* - Perform tests to ascertain if program income was used in accordance with the program requirements, the A-102 Common Rule, and OMB Circular A-110.

K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE

Compliance Requirements

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, (URA) provides for uniform and equitable treatment of persons displaced by Federally-assisted programs from their homes, businesses, or farms. Property acquired must be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to assure acceptability. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by Federally-funded projects. The regulations also cover the payment of moving-related expenses and reestablishment expenses incurred by displaced businesses and farm operations.

Governmentwide requirements for real property acquisition and relocation assistance are contained in Department of Transportation's single governmentwide rule at 49 CFR part 24, Uniform Relocation Assistance and Real Property Acquisition Regulations for Federal and Federally-Assisted Programs.

Audit Objective

Determine whether the non-Federal entity complied with the real property acquisition, appraisal, negotiation, and relocation requirements.

Suggested Audit Procedures

1. Inquire of management and review the records of Federal programs to ascertain if the non-Federal entity administers Federally-assisted programs that involve the acquisition of real property or the displacement of households or businesses.

2. *Property Acquisitions*

   For a sample of acquisitions:

   a. *Appraisal* - Test records to ascertain if: (1) the just compensation amount offered the property owner was determined by an appraisal process; (2) the appraisal(s) was examined by a review appraiser; and, (3) the review appraiser prepared a signed statement which explains the basis for adjusting comparable sales to reach the review appraiser's determination of the fair market value.

   b. *Negotiations* - Test supporting documentation to ascertain if: (1) a written offer of the appraised value was made to the property owner; and (2) a written justification was prepared if the purchase price for the property exceeded the amount offered and that the documentation (e.g., recent court awards, estimated trial costs,

valuation problems) supports such administrative settlement as being reasonable, prudent, and in the public interest.

c. *Residential Relocations* - Test supporting documentation to ascertain if the non-Federal entity made available to the displaced persons one or more comparable replacement dwellings.

3. *Replacement Housing Payments* - For a sample, test the non-Federal entity's records to ascertain if there is documentation that supports the following;

a. The owner occupied the displacement dwelling for at least 180 days immediately prior to initiation of negotiations.

b. The non-Federal entity examined at least three comparable replacement dwellings available for sale and computed the payment on the basis of the price of the dwelling most representative of the displacement dwelling.

c. The asking price for the comparable dwelling was adjusted, to the extent justified by local market data, to recognize local area selling price reductions.

d. The allowance for increased mortgage cost "buy down" amount was computed based on the remaining principal balance, the interest rate, and the remaining term of the old mortgage on the displacement dwelling.

e. The non-Federal entity prepared written justification on the need to employ last resort housing provisions, if the total replacement housing payment exceeded $22,500.

4. *Rental or Downpayment Assistance* - For a sample, test the non-Federal entity's records to ascertain if there is documentation that supports the following:

a. The displacee occupied the displacement dwelling for at least 90 days immediately prior to initiation of negotiations.

b. The displacee rented, or purchased, and occupied a decent, safe, and sanitary replacement dwelling within one year.

c. The non-Federal entity prepared written justification if the payment exceeded $5250.

5. *Business Relocations* -

For a sample of business relocations:

a. *Moving Expenses* - Test that payments for moving and related expenses were for actual costs incurred or that fixed payments, in lieu of actual costs, were limited to

a maximum of $20,000 and computed based on the average annual net earnings of the business, as evidenced by income tax returns, certified financial statements, or other reliable evidence.

b. *Business Reestablishment Expense* - Verify that (1) the displacee was eligible as a farm operation, a non-profit organization, or a small business to receive reestablishment assistance, and (2) the payment was for actual costs incurred and did not exceed $10,000.

L. REPORTING

Compliance Requirements

Financial Reporting

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). These other forms may include financial, performance, and special reporting. Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis. The awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats. (The open-ended entitlement programs (Appendix 1) require quarterly reports.)

The reporting requirements for subrecipients are as specified by the pass-through entity. In many cases, these will be the same as or similar to the following requirements for recipients.

The standard financial reporting forms are as follows:

1. *Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038))*. Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

2. *Request for Advance or Reimbursement (SF-270 (OMB No. 0348-0004))*. Recipients use the SF-270 to request Treasury advance payments and reimbursements under non-construction programs.

3. *Outlay Report and Request for Reimbursement for Construction Programs (SF-271 (OMB No. 0348-0002))*. Recipients use the SF-271 to request funds for construction projects unless advances or the SF-270 is used.

4. *Federal Cash Transactions Report (SF-272 (OMB No. 0348-0003) or SF-272-A (OMB No. 0348-0003))*. Recipients use the SF-272 when payment is by advances or reimbursements. The awarding agency may waive the requirement for an SF-272 when electronic payment mechanisms provide adequate data.

Electronic versions of these standard forms are located on the OMB's Internet home page (http://www.whitehouse.gov/OMB).

Reporting Under the Payment Management System

Many recipients utilize the Payment Management System (PMS) operated by the Division of Payment Management (DPM) within the Department of Health and Human Services. After a Federal agency awards a grant, DPM is responsible for controlling payments to the recipient; receiving collections for unexpended funds, duplicate payments, audit disallowances, and interest earned on Federal funds; accounting for disbursement information provided by the recipient; and reporting data equivalent to the SF-272, *Federal Cash Transaction Report*, to the recipient and Federal agency.

Federal awarding agencies enter authorization amounts in PMS to allow recipients to draw Federal funds. There are three methods by which recipients can request funds: (1) the PMS 270 cash request, (2) SMARTLINK II, or (3) CASHLINE systems. SMARTLINK II enables recipients to request Federal funds through computer link with DPM, while CASHLINE allows funds to be requested via a touch tone telephone. Once a quarter, using the authorization amounts provided by the Federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PMS 272 reports.

The PMS 272 is a series of reports consisting of:

1. PMS 272, *Federal Cash Transactions Report, Status of Federal Cash (OMB No. 0937-0200)*. This report provides a total accountability of all Federal cash received by the recipient. It is partially prepared by DPM based on data reported to DPM, and is completed and certified by the recipient.

2. PMS 272-A, *Federal Cash Transactions Report (OMB No. 0937-0200)*. This report is a continuation of the PMS-272 and is used by the recipient to report cash disbursements back to DPM.

3. PMS 272-B, *Statement of Cash Accountability (OMB No. 0937-0200)*. This report is furnished for the recipient's information and shows how the recipient's cash accountability was derived by DPM.

4. PMS 272-C, *Error Correction Document (OMB No. 0937-0200)*. This report can be used by the recipient to report data reconciliation problems for awards on the PMS 272-A or the Advances to Payee portion in the PMS 272-B.

5. PMS 272-E, *Major Program Statement (OMB No. 0937-0200)*. This report is furnished to States, Indian Tribes, and cross-serviced organizations for their information only. This report lists individual payments during the quarter among the various programs, and provides a cash accountability for all advances received through PMS by major program. All information provided is pre-printed by DPM.

6. PMS 272-F, *Authorizations for Future Periods (OMB No. 0937-0200)*. This report is provided for information only and requires no action by the recipient. It represents all awards posted in the PMS database that have effective dates in future reporting periods.

7. PMS 272-G, *Inactive Documents Report (OMB No. 0937-0200)*. This report lists all awards posted in the PMS database that have become inactive or fully disbursed during the current period or a previous period. In the event that disbursement adjustments are required, they should be reported via the PMS 272-A.

The reports are either mailed to the recipient or electronically downloaded by the recipient using DPM's Electronic 272 System. Recipients should verify the reported amounts. If discrepancies are noted, the report is annotated (or the PMS 272-C is completed) and returned to DPM. The recipient uses the PMS 272-A to report the amount of disbursements made; then signs, dates, and returns the report to DPM. Recipients may report disbursements data electronically using the Electronic 272 process. PMS 272 reporting requirements do not apply to block grant programs; however, DPM does provide block grant recipients with a PMS 272-E, *Major Program Statement*, quarterly. This report is provided solely for information and no action is required by the recipient.

Performance Reporting

Recipients shall submit performance reports at least annually but not more frequently than quarterly. Performance reports generally contain, for each award, brief information on each of the following:

1. A comparison of actual accomplishments with the goals and objectives established for the period.

2. Reasons why established goals were not met, if appropriate.

3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Special Reporting

Non-Federal entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.

Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:

1. Have a direct and material effect on the program.

2. Are capable of evaluation against objective criteria stated in the laws, regulations, contract or grant agreements pertaining to the program.

Performance and special reporting data specified in Part 4, Compliance Requirements, meet the above criteria.

Reporting requirements are contained in the following documents:

a. A-102 Common Rule -- Financial reporting, §____.41; Performance reporting, §____.40(b).

b. OMB Circular A-110 -- Financial reporting, §____.52; Performance reporting, §____.51.

c. The laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

Audit Objective

Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

Suggested Audit Procedures

Note: For recipients using PMS to draw Federal funds, the auditor should consider the following steps numbered 1 through 5 as they pertain to the PMS 272, PMS 272-A, PMS 272-B, and PMS 272-E, regardless of the source of the data included in the PMS reports. Although certain data is supplied by the Federal awarding agency (i.e., award authorization amounts) and certain amounts are provided by DPM, the auditor should ensure that such amounts are in agreement with the recipient's records and are otherwise accurate.

1. Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency, or pass-through entity in the case of a subrecipient, instructions for completing the reports.

   a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).

   b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.

2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:

   a. Comparing current period reports to prior period reports.

   b. Comparing anticipated results to the data included in the reports.

   c. Comparing information obtained during the audit of the financial statements to the reports.

Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.

3. Select a sample of each of the following report types.

   a. Financial reports:

      (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.

      (2) Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.

      (3) For any discrepancies noted in PMS-272 reports, review subsequent PMS-272 reports to ascertain if the discrepancies were appropriately resolved with the Department of Health and Human Services' Division of Payment Management.

   b. Performance and special reports:

      (1) Trace the data to records that accumulate and summarize data.

      (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.

   c. When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.

   d. Test mathematical accuracy of reports and supporting worksheets.

4. Test the selected reports for completeness.

   a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).

   b. For performance and special reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.

5. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the Department of Health and Human Services' Division of Payment Management for recipients using the Payment Management System, or pass-through entity in the case of a subrecipient.

M. SUBRECIPIENT MONITORING

Compliance Requirements

A pass-through entity is responsible for:

- Identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.

- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.

- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.

- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

The requirements for subrecipient monitoring are contained in the A-102 Common Rule (§___.37 and §___.40(a)), OMB Circular A-110 (§___.50(a), Federal awarding agency program regulations, and the terms and conditions of the award.

Audit Objectives

Determine whether the pass-through entity:

1. Identified Federal award information and compliance requirements to the subrecipient, and approved only allowable activities in the award documents.

2. Monitored subrecipient activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.

3. Ensured required audits are performed and requires appropriate corrective action on monitoring and audit findings.

4. Evaluates the impact of subrecipient activities on the pass-through entity.

Suggested Audit Procedures

(Note: The auditor may consider coordinating the tests related to subrecipients performed as part of Cash Management (tests of cash reports submitted by subrecipients), Eligibility (tests that subawards were made only to eligible subrecipients), and Procurement (tests of suspension and debarment certifications) with the testing of Subrecipient Monitoring.)

1. Discuss subrecipient monitoring with the pass-through entity's staff to gain an understanding of the scope of monitoring activities, including the number, size, and complexity of awards to subrecipients.

2. Test award documents and/or approved agreements to ascertain if the pass-through entity made subrecipients aware of the award information (e.g., CFDA title and number, award name, name of Federal agency) and requirements imposed by laws, regulations and the provisions of contract or grant agreements, and to verify that the activities approved in the award documents were allowable. This testing should include procedures to verify that the pass-through entity required subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year to have audits made in accordance with OMB Circular A-133.

3. Review the pass-through entity's documentation of subrecipient monitoring to ascertain if the pass-through entity monitored that subrecipients used Federal funds for authorized purposes and takes actions in response to monitoring findings. This review should include procedures to verify that the pass-through entity monitored the activities of subrecipients not subject to OMB Circular A-133, using techniques such as those discussed in the Compliance Requirements provisions of this section.

4. Verify that the pass-through entity receives audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133, issues timely management decisions on audit and monitoring findings, and requires subrecipients to take timely corrective action on deficiencies identified in audits and subrecipient monitoring.

5. Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity's records.

N. SPECIAL TESTS AND PROVISIONS

Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs. For programs not listed in this Supplement, the auditor shall review the program's contract and grant agreements and referenced laws and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, for both programs included and not included in this Supplement, the auditor shall identify any additional compliance requirements which are not based in law or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material on a major program shall be included in the audit.

Year 2000 Compliance Considerations

The Year 2000 (Y2K) problem stems from the use in many computer systems of a two-digit dating system that assumes the first two digits of the year are 1 and 9, a convention adopted years ago when coding space was a premium. Without corrective action, the systems may recognize "00" date not as 2000 but as 1900, which could cause systems to shut down or malfunction. On August 19, 1998, OMB issued an "Advisory to Federal Grantees on Responsibility to Address Year 2000 Issue," which included guidance related to Federal awards. This advisory is located under the grants management heading on OMB's Internet home page (http://www.whitehouse.gov/OMB) and a copy is also included as Appendix VI to this Supplement.

Many Federal agencies have included in the provisions of contracts and grant agreements requirements relative to the Y2K problem (e.g., the non-Federal entity should make specified progress towards becoming Y2K compliant; meet specified Y2K performance requirements; use, develop, or acquire equipment and systems that are Y2K compliant; or develop Y2K contingency plans). The auditor is not expected to plan and perform procedures to determine whether a non-Federal entity is in compliance with these Y2K compliance provisions.

However, as with any other issue affecting a non-Federal entity's ability to comply with the requirements related to Federal awards, auditors will need to consider the effect of the Y2K issue when performing tests of compliance during the audit period. This will be particularly important

when the audit period or dates affecting compliance (e.g., eligibility calculations) include dates after December 31, 1999.

PART 5 - CLUSTERS OF PROGRAMS

INTRODUCTION

Part 5 identifies those programs that are considered to be clusters of programs as defined by OMB Circular A-133 (§___.105). A cluster of programs means Federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common compliance requirements. This Part identifies research and development (R&D) and Student Financial Aid (SFA) as clusters, as well as certain other programs included in Part 4, Agency Program Requirements, that are deemed to be clusters. For R&D and SFA, the following sections of this Part are the equivalent of Part 4.

This Part also defines other clusters of programs that are **not** included in this Compliance Supplement. If a cluster is defined in this Part, but not included in Part 4, the auditor will have to determine the compliance requirements to test in accordance with Part 7, Guidance for Auditing Programs Not Included in This Compliance Supplement.

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements. The descriptions of the compliance requirements in Parts 3 and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

Department of Education
Department of Health and Human Services

CFDA 84.007	FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM (FSEOG)
CFDA 84.032	FEDERAL FAMILY EDUCATION LOANS (FFEL)
CFDA 84.033	FEDERAL WORK-STUDY PROGRAM (FWS)
CFDA 84.038	FEDERAL PERKINS LOANS (FPL)--FEDERAL CAPITAL CONTRIBUTIONS
CFDA 84.063	FEDERAL PELL GRANT PROGRAM (PELL)
CFDA 84.268	FEDERAL DIRECT LOAN PROGRAM (DIRECT LOAN) (FDL)
CFDA 93.108	HEALTH EDUCATION ASSISTANCE LOANS (HEAL)
CFDA 93.342	HEALTH PROFESSIONS STUDENT LOANS, INCLUDING PRIMARY CARE LOANS/LOANS FOR DISADVANTAGED STUDENTS (HPSL)
CFDA 93.364	NURSING STUDENT LOANS (NSL)
CFDA 93.820	SCHOLARSHIPS FOR STUDENTS OF EXCEPTIONAL FINANCIAL NEED (EFN)
CFDA 93.925	SCHOLARSHIPS FOR HEALTH PROFESSIONS STUDENTS FROM DISADVANTAGED BACKGROUNDS (SDS)

I. PROGRAM OBJECTIVES

The objective of the student financial assistance programs is to provide financial assistance to eligible students attending institutions of postsecondary education.

II. PROGRAM PROCEDURES

Institutions must apply to either the Secretary of Education or Secretary of Health and Human Services to participate in their particular SFA programs. Some applications must be filed annually, others upon initial entry and once approved, periodically thereafter. Institutions may be approved to participate in only one program or a combination of programs. Institutions are responsible for (1) determining student eligibility; (2) verifying student data (when required); (3) calculating, as required, the amount of financial aid a student can receive; (4) completing and/or certifying parts of various loan applications and/or promissory notes; (5) drawing funds from the Federal government and disbursing or delivering SFA funds to students through disbursement and/or credits to students' accounts; (6) making borrowers aware of loan repayment responsibilities; (7) submitting, as requested, data on borrowers listed on student status confirmation reports; (8) making refunds to students, lenders and programs, as appropriate, if students withdraw, drop out or are expelled from their course of study; (9) collecting SFA overpayments; (10) establishing, maintaining and managing (including collecting loan

repayments) a revolving loan fund for applicable programs; and, (11) reporting the use of funds. Institutions may contract with third-party servicers to perform many of these functions.

Title IV Programs - General

The programs cited in this cluster that are administered by the Department of Education (those with CFDAs beginning with 84) are authorized by Title IV of the Higher Education Act of 1965 (the Act), as amended, and collectively are referred to as the "Title IV programs." Because they are administered at the institutional level, the Federal Perkins Loan Program, Federal Work-Study Program and Federal Supplemental Education Opportunity Grant program are referred to collectively as the "campus-based programs."

For Title IV programs, students complete an application (Free Application for Federal Student Aid (FAFSA) and send it to a central processor (a contractor of the Department of Education that administers the Central Processing System). The central processor provides Student Aid Reports (SARs) to applicants and provides Institutional Student Information Records (ISIRs) to institutions. Among other things, the SAR contains the applicant's Expected Family Contribution. Students take their SARs to the institution (or the institution uses the ISIR) to help determine student eligibility, award amounts and disbursements. (Note: The central processor is a service organization of the Department of Education, not of the schools. Therefore, Statement on Auditing Standards No. 70 does not apply when auditing the schools.)

Federal Pell Grant (Pell) (CFDA 84.063)

The Federal Pell Grant program provides grants to eligible undergraduate and for certain eligible postgraduate teacher certificate program students and is intended to provide a foundation of financial aid. The program is administered by the Department of Education and postsecondary educational institutions. Maximum and minimum Pell grant awards are established by statute. The Department of Education provides funds to the institution based on actual and estimated Pell expenditures.

Federal Perkins Loan (FPL) (CFDA 84.038)
Health Professions Student Loan (HPSL)/Primary Care Loans (PCL) (CFDA 93.342)
Nursing Student Loan (NSL) (CFDA 93.364)

The FPL, HPSL/PCL, and NSL programs provide long-term low-interest loans to students who demonstrate the need for financial aid to pursue their course of study at postsecondary educational institutions. Revolving loan funds are established and maintained at institutions through applications to participate in the programs. The funds are started with the Federal Capital Contribution (FCC) and a matching Institutional Capital Contribution (ICC). Repayments of principal and interest, new FCC, and new ICC are deposited in the revolving funds. The institution is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans). Primary Care Loans are a segment of HPSL loan funds that impose certain restrictions on new borrowers as of July 1, 1993. First-time recipients of these funds after July 1, 1993 must agree to enter and complete a residency training program in primary health care, not later than four years after the date on which the student graduates from

medical school, and must practice in such care through the date on which the loan is paid in full. Students who received their first HPSL before July 1, 1993 are exempt from this requirement, and may continue to borrow HPSL loans under their applicable health-related course of study.

Federal Work Study (FWS) (CFDA 84.033)

The Federal Work Study (FWS) program provides part-time employment to students who need the earnings to help meet costs of postsecondary education. This program also authorizes the establishment of the Job Location and Development (JLD) program, the purpose of which is to expand off-campus part-time or full-time employment opportunities for all students, regardless of their financial need, who are enrolled in eligible institutions and to encourage students to participate in community service activities.

Funds are provided to institutions upon submission of an annual application, *Fiscal Operations Report and Application to Participate* (FISAP) (this application covers all campus-based programs), and in accordance with statutory and regulatory formulae. Institutions must provide matching funds unless they request in their FISAP and receive 100 percent Federal share. The institution decides the award amount, places the student in a job, and pays the student or arranges to have the student paid by an off-campus employer. The institution may use a portion of FWS funds for a JLD program.

Federal Supplemental Education Opportunity Grant (FSEOG) (CFDA 84.007)

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Federal Pell recipients who have the lowest expected family contributions. The institution decides the amount of the grant, which can be up to $4,000 but not less than $100, for an academic year The maximum amount may be increased to $4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution. Federal funds are matched with institutional funds (34 CFR section 676.21).

Federal Family Education Loans (FFEL) (CFDA 84.032)
William D. Ford Federal Direct Loan Program (Direct Loan) (CFDA 84.268)
(Both programs include subsidized, unsubsidized, and PLUS loans)

The FFEL and Direct Loan programs make interest subsidized or unsubsidized loans available to students or parents of dependent students (PLUS loan) to pay for the cost of attending postsecondary educational institutions. FFEL loans are made by eligible lenders (e.g. banks, savings and loan institutions, etc.) and insured by State or not-for-profit guaranty agencies. In some cases, institutions of higher education are approved as eligible lenders. The Federal Government reinsures loans guaranteed by the guaranty agencies. Direct Loans are made by the Secretary of Education. The student's SAR or ISIR, along with other information, is used by the institution to certify (for FFEL) or originate (for Direct Loan) a student's loan. The student financial aid administrator is also required to provide and confirm certain information.

The Federal Direct Loan program is changing annually. Institutions participate in loan origination options: Option 1, Option 2 or Standard. Functions performed by loan origination

option vary and are described in the *Direct Loan School Guide*. Direct Loan is an electronic program except for the promissory note. Electronic records are created, batched, transmitted (exported) to a loan origination center (LOC) and acknowledged by (imported from) the LOC, on a cycle approach. A cycle is not complete until the last activity in it is finished, i.e., an action has been accepted by the LOC and the school's system reflects the acceptance. Direct Loan has four types of cycles: Loan Origination Records (one for each loan), Promissory Note Manifests, Disbursement Records and Change Records. For a loan to be "booked" the institution must have electronically transmitted to the LOC, and the LOC must have accepted these records: (1) the loan origination record; (2) the Promissory Note Manifest (matched with the paper promissory note sent by the school/student); and, (3) the first disbursement of loan proceeds. The borrower's original accepted promissory note is maintained at the LOC; the institution is not required to keep a copy.

When auditing institutions of higher education, tests of the compliance requirements are not expected to be made at the FFEL lending institutions (e.g., banks, credit unions, etc.) or the Direct Loan LOC. However, if the institution is participating in FFEL as an eligible lender, and SFA is a major program, the auditor's compliance opinion on SFA includes compliance with requirements associated with its role as a lender. Therefore, if the lending activity under FFEL is material to SFA as a whole, the auditor would need to perform procedures to support his or her opinion with respect to the institution's role as a FFEL lender. Compliance requirements associated with lenders under the FFEL program are not included in this compliance supplement, but are identified in an audit guide available from the Department of Education: *Compliance Audits (Attestation Engagements) for Lenders and Lender Servicers Participating in the Federal Family Education Loan Program*, dated December 1996.

The FFEL program at Guaranty Agencies (84.032) is not part of the Student Financial Assistance Cluster and is included in Part 4, Agency Program Requirements.

Health Education Assistance Loans (HEAL) (CFDA 93.108)

The HEAL Program is now effectively phased out as a Federal program that originates loans. Borrowers who received a HEAL loan prior to October 1, 1995, continued to be eligible to borrow until the phaseout period ended, on September 30, 1998, when the HEAL Program's insurance authority (for funding levels) ceased. Students who had not obtained a HEAL loan before October 1, 1995, were not eligible to participate in the program after that date. Provisions were also made under the Higher Education Act of 1965, as amended, to increase the annual limits on unsubsidized loans under the Title IV, HEA program funds, to accommodate borrowers who became ineligible for HEAL loan funds after October 1, 1995. (See ***Annual Limits for Unsubsidized Loans*** in this Supplement).

A sizeable HEAL loan portfolio still exists, and certain schools may have currently enrolled students with active HEAL loans. An institution's activity will not include loan certification or origination at this point, and should be generally limited to reporting student status changes, exit loan counseling and preclaim assistance to former HEAL loan lenders.

Scholarship Program for Students of Exceptional Financial Need (EFN) (CFDA 93.820)

EFN encourages those needy students, who might otherwise be reluctant to do so, to pursue a career as a health professional. These scholarships are awarded with a primary care service commitment to health professional students of exceptional financial need. Annual awards are made to participating health professional schools. Each school makes awards to eligible students.

Scholarships For Health Professions Students From Disadvantaged Backgrounds (Scholarships for Disadvantaged Students) (CFDA 93.925)

This program provides grants to schools of medicine, osteopathic medicine, dentistry, nursing, pharmacy, podiatric medicine, optometry, veterinary medicine, public health, chiropractic or allied health; a school offering a graduate program in behavioral and mental health practice; or an entity providing programs for the training of physician assistants.

Source of Governing Requirements

The Department of Education programs are authorized by Title IV of the Higher Education Act (HEA) of 1965, as amended. The HEA was recently amended by the Higher Education Amendments of 1998, enacted in October of 1998. Citations to the HEA and United States Code reflect this recent revision. The Act and implementing regulations are found in Title 34 of the CFR.

The HHS programs in this cluster are authorized by the Public Health Service Act (PHSA). The PHSA was recently amended by the Health Professions Education Partnership Act of 1998, Pub. L. No. 105-392, effective November 13, 1998. The program authority for the Scholarship Program for Students of Exceptional Financial Need (CFDA 93.820) was repealed by the Act. EFN was replaced by Scholarships For Disadvantaged Students (Pub. L. No.105-392, Section 737).

Availability of Other Program Information

The Department of Education annually publishes the *Federal Student Financial Aid Handbook*, which provides detailed guidance on administering the Title IV programs. This and other guidance material are available from the Department of Education by calling 1-800-4FEDAID (1-800-433-3243) or on the Internet (http://ifap.ed.gov/).

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 5 for the details of the requirements.

Note: While the programs included in this cluster are generally similar in their intent, administration and documentation, etc., there are differences among them. Because of space considerations, we could not list all of the differences, exceptions to general rules or nuances pertaining to specific programs. Auditors should utilize regulations and guidance applicable to the year(s) being audited when auditing the SFA programs.

A. Activities Allowed or Unallowed

Generally, SFA funds can be used only for making awards to students and for administration of the programs. Other allowable uses for specific programs are as follows:

Federal Perkins Loan (FPL)

Certain billing, collection, and litigation costs must first be charged to the borrower and cannot be charged to the loan fund. If amounts recovered from the borrowers are not sufficient to pay these collection costs, program funds can be used to pay these costs with certain limits (34 CFR sections 674.8 and 674.47).

A school may transfer up to a total of 25 percent of its Federal Capital Contribution for an award year to either or both the Federal Supplemental Educational Opportunity Grant (FSEOG) or Federal Work Study programs. A school may transfer up to 100 percent of its initial and supplemental allocations to an approved Work Colleges program (34 CFR section 675.41). Transferred funds must be used according to the requirements of the program to which they are transferred. A school that transfers funds to the Federal Work Study , FSEOG or Work Colleges programs must transfer any unexpended funds back to the Federal Perkins Loan program at the end of the award year (34 CFR section 674.18).

Federal Work Study (FWS)

The institution may use FWS funds only for awards to students, a Job Location and Development (JLD) Program, Work-Colleges Program, administrative costs, and transfers to FSEOG (34 CFR sections 675.18 and 675.33).

Health Professions Student Loan (HPSL)/Primary Care Loan (PCL), CFDA 93.342
Nursing Student Loan (NSL), CFDA 93.364

Funds from both programs may also be used for capital distribution in Sections 728 and 839, or, as agreed to by the Secretary for costs of litigation; costs associated with membership in credit bureaus and, to the extent specifically approved by the Secretary, for other collection costs that exceed the usual expenses incurred in the collection of loan funds. Funds may also be used for repayments of principal and interest on Federal capital loans (HPSL, 42 CFR section 57.205(a); NSL, 42 CFR section 57.305(a)).

C. Cash Management

ED pays an institution either in advance, by reimbursement, or by the cash monitoring payment methods. ED is piloting the just-in-time (JIT) payment method at a few institutions. Under the reimbursement method, the institution must disburse funds to the students before requesting funds from ED. Under the cash monitoring method, the institution must disburse funds to students before requesting funds from ED under either the advance (limited to the actual disbursement amount) or the reimbursement method. Under the advance payment method, the institution's request must not exceed the amount immediately needed to disburse funds to students. The institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to ED. However, an excess cash balance tolerance is allowed if that balance: (1) during a peak period of enrollment, was less than three percent of its total prior-year drawdowns; (2) for any other period was less than one percent of its prior-year drawdowns; and, (3) is eliminated within the next seven calendar days. Except for the Federal Perkins Loan Program earnings, interest earnings greater than $250 must be returned to the ED. Federal Perkins Loan earnings are reinvested in the Federal Perkins Loan revolving fund (34 CFR section 668.162 and 166).

For the HHS programs, requests for new FCC must only be made when needed. Any idle cash including any interest earned must be deposited in an income-producing account and all excess cash must be returned to HHS (HPSL, 42 CFR sections 57.203 and 57.205; NSL, 42 CFR sections 57.303 and 57.305).

E. Eligibility

1. Eligibility for Individuals

The requirements for student eligibility are contained in Appendix A.

The determination of SFA award amounts is based on financial need. Financial need is generally defined as the student's cost of attendance (COA) minus financial resources reasonably available. In determining the financial resources available for the HHS programs, the school must use one of the national need analysis systems or any other procedures approved by the Secretary of Education. The school must also take into account other information that it has regarding the student's financial status. For Title IV programs, the financial resources available is generally the Expected Family Contribution (EFC) that is computed by the central processor and included on the student's SAR and the ISIR provided to the institution.

For the HHS programs and the FPL, the costs reasonably necessary for the student's attendance include any special needs and obligations which directly affect the student's ability to attend the school. The school must document the

criteria used for determining these costs. For Title IV programs the COA is generally the sum of the following: tuition and fees; an allowance for books, supplies, transportation and miscellaneous personal expenses; an allowance for room and board; where applicable, allowances for costs for dependent care; costs associated with study abroad and cooperative education; costs related to disabilities; and fees charged for student loans. There are exceptions for students attending less than half time, correspondence students, and incarcerated students. The financial aid administrator also has authority to use professional judgement to adjust the COA on a case-by-case basis to allow for special circumstances (20 USC 1087ll-1087mm; FPL, 34 CFR section 674.9; FWS, 34 CFR section 675.9; FSEOG, 34 CFR section 676.9; FFEL, 34 CFR section 682.603; Direct Loan 34 CFR sections 685.200 and 301; Pell 34 CFR section 690.75; HPSL, 42 CFR section 57.206(b); NSL, 42 CFR section 57.306(b); EFN, 42 CFR sections 57.2804(b) and 57.2806).

In addition to the following described requirements and limits, awards must be coordinated among the various programs and with other Federal and non-Federal aid to assure that total aid is not awarded in excess of the student's financial need (FPL, FWS, and FSEOG, 34 CFR sections 673.5 and 673.6; FFEL, 34 CFR section 682.603; Direct Loan, 34 CFR section 685.301; HPSL, 42 CFR section 57.206; NSL, 42 CFR section 57.306(b); EFN, 42 CFR section 57.2806).

Health Professions Student Loan (HPSL)/Primary Care Loan (PCL), CFDA 93.342, Nursing Student Loan (NSL), CFDA 93.364

For periods prior to November 13,1998, the total amount of HPSL loans made to a student for a school year may not exceed $2,500 plus the cost of tuition (42 CFR section 57.207). For medical and osteopathic students who are applying for a HPSL loan, the school must make its selection based on the order of greatest financial need, taking into consideration the other resources available to the student. The resources may include summer earnings, educational loans, veteran (G.I.) Benefits, and earnings during the school year (HPSL, 42 CFR section 57.206(c)). For periods after November 13, 1998, the total amounts of HPSL loans to a student for a school year may not exceed the cost of attendance (including tuition, other reasonable educational expenses, and reasonable living expenses). The amount of the loan may, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, be increased to pay balances of loans that were made to the individual for attendance at the school (42 USC 722(a)(1), section 722(a)(1) of PHSA, Pub. L. No. 105-392, sections 134 (1) and (2)). The total amount of NSL loans made to a student for an academic year may not exceed $2,500 except that for each of the final two academic years of the program the total must not exceed $4,000. The total of all NSL loans may not exceed $13,000 (NSL, 42 CFR section 57.307).

Scholarship Program for Students of Exceptional Financial Need (EFN), CFDA 93.820

This program applies to the health profession only. Scholarships must be awarded to eligible individuals who agree to practice primary care. A scholarship will include the student's tuition, fees and the cost of all other reasonable educational expenses. If a recipient ceases to be a full-time student at the school, the school must discontinue all scholarship payments to a student and remit the unused balance of the scholarship to the Federal Government (42 USC 293 and 295n; 42 CFR section 57.2807). The authority for this program was repealed by the Health Professions Education Partnership Act of 1998 (Pub. L. No. 105-392). The EFN was replaced by Scholarships For Disadvantaged Students (Pub. L. No. 105-392, Section 101). Amendments made by the Act shall not terminate agreements that, on the day before the date of enactment of the Act, were in effect. Such agreements shall continue in effect in accordance with the terms of the agreements. (42 USC 294; section 737 of PHSA)

Scholarships For Health Professions Students From Disadvantaged Backgrounds (Scholarships for Disadvantaged Students) (CFDA 93.925)

Scholarships will be awarded by schools to any full-time student who is from a disadvantaged background; has a financial need for a scholarship; and is enrolled (or accepted for enrollment) in a program leading to a degree in a health profession or nursing. Such scholarships may be expended only for tuition expenses, other reasonable educational expenses, and reasonable living expenses incurred in the attendance of such school (42 USC 294; section 737 of PHSA).

Federal Pell Grants (Pell)

Each year, based on the maximum Pell grant established by Congress, ED provides to institutions Payment and Disbursement Schedules for determining Pell awards. The Payment or Disbursement Schedule provides the maximum annual amount a student would receive for a full academic year for a given enrollment status, EFC and COA. The Payment Schedule is used to determine the annual award for a full-time student. There are separate Disbursement Schedules for three-quarter time, half-time and less than half-time students and students with low assessed tuition. All of the Schedules, however, are based on the COA of a full-time student for a full academic year (see the Pell Grant Reference in the *Federal SFA Handbook* for the year(s) being audited for guidance on selecting formulas for calculating cost of attendance, prorating costs for programs less or greater than an academic year, and determining payment periods). The steps to determine Pell awards are as follows:

(1) Determine the student's enrollment status (full-time, three-quarter time, half-time or less than half-time).

(2) Calculate the cost of attendance. This is always based on the cost for a full-time enrollment status for a full academic year. If the student is enrolled in a program or enrollment period that is longer or shorter than an academic year, the costs must be prorated so that they apply to one full academic year. There are two allowable proration methods. Costs can be on an actual cost-per-student basis or an average cost for groups of similar students. If the student is enrolled less than half-time, the only allowable cost components are tuition and fees, allowance for books and supplies, transportation allowance, and allowance for dependent care.

(3) Determine the annual award, based on the cost of attendance calculated above and the Expected Family Contribution, from the Payment or Disbursement Schedule for the student's enrollment status (i.e., full-time, three quarter-time, half-time, or less than half-time).

(4) Determine the payment period. For term programs (semester, trimester, quarter), the payment period is the term.

(5) Calculate the payment for the payment periods. The calculation of the payment for the payment period may vary depending on the formula used, the length of the program compared to the academic year, and whether the institution uses an alternative calculation for students who attend summer terms (See the Pell Grant Reference in the *Federal SFA Handbook*).

(6) Disburse funds at prescribed times (This is tested under section N, Special Tests and Provisions) (34 CFR sections 690.61 through 690.67, and 690.75 through 690.78; Pell Grant Payment Schedules; and *Federal SFA Handbook*).

Campus-Based Programs (FPL, FWS, FSEOG)

The maximum amount that can be awarded under the campus-based programs is equal to the student's financial need (COA minus EFC) minus aid from other SFA programs and other resources. For programs of study or enrollment periods less than or greater than an academic year, the COA for loans and campus-based aid is based on the student's actual costs for the period for which need is being analyzed, rather than being prorated to the costs for a full-time student for a full academic year. The financial aid administrator has discretion in awarding amounts from each program, subject to certain limitations.

FSEOG

The FSEOG program provides grants to eligible undergraduate students. Priority is given to Federal Pell recipients who have the lowest expected family contributions. The institution decides the amount of the grant, which can be up to $4,000 but not less than $100, for an academic year. The maximum amount may

be increased to $4,400 for a student participating in a study abroad program that is approved for credit by the student's home institution (34 CFR sections 676.10 and 676.20).

FPL

Annual loan maximums for the FPL Program are: $4,000 for a student who has not successfully completed a program of undergraduate education ($8,000 cumulative for a student who has not successfully completed two years of a program leading to a bachelor's degree, $20,000 cumulative for a student who has successfully completed 2 years of a program leading to a bachelor's degree but who has not completed the work necessary for the degree), or $6,000 for a graduate or professional student ($40,000 cumulative, including loans borrowed as an undergraduate student) (34 CFR section 674.7 and the *Federal SFA Handbook*). (Note: 34 CFR section 674.7 will be moved to 34 CFR 674.12 on July 1, 2000.)

Federal Family Education Loans (FFEL, CFDA 84.032)
Federal Direct Loan Program (Direct Loan, CFDA 84.268)

In determining loan amounts for subsidized loans, the financial aid administrator subtracts from the COA the EFC and the estimated financial assistance for the period of enrollment that the student (or parent on behalf of the student) will receive from Federal, State, institutional or other sources. Unsubsidized loans, PLUS loans, loans made by a school to assist the student, and state-sponsored loans may be used to substitute for EFC (34 CFR sections 682.200, 682.603, 685.102, and 685.301).

The annual loan limits apply to the length of the school's academic year. Except for PLUS loans and for graduate or professional students, proration of a loan is required when a program is less than an academic year in either clock hours or credit hours or number of weeks; or a program exceeds an academic year but the portion of the program in excess of an academic year remaining is less than an academic year in length. For the purpose of determining loan limits, the number of years that a student has completed in a program of undergraduate study includes any prior enrollment (at the same or another institution) in an eligible program of undergraduate education for which the student was awarded an associate or bachelor's degree, as long as the degree is required by the school for admission to the program in which the student is currently enrolled. The loan limits described below apply to both the FFEL and Direct Loan programs and are cumulative. For example, an undergraduate student who has borrowed $10,000 in subsidized FFEL and $13,000 in subsidized direct loans has reached the aggregate undergraduate limit of $23,000 for both programs (34 CFR sections 682.204 and 685.203).

Annual Limits for Subsidized Loans

For an undergraduate student who has not yet successfully completed the first year of study the annual loan limit is $2,625 for a program of study at least an academic year in length. For a program less than an academic year, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first year but has not successfully completed the second year of an undergraduate program: (1) up to $3,500 for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated. Programs less than one-third of an academic year are not eligible for these loans.

For an undergraduate student who has successfully completed the first and second year of study but has not successfully completed the remainder of the program or for a student in a program who has an associate or baccalaureate degree which is required for admission into the program: (1) up to $5,500 for a program of study at least an academic year in length, and (2) for programs with less than an academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to $8,500 per academic year.

Annual Limits for Unsubsidized Loans

A student may receive an unsubsidized loan for the amount that is the difference between the subsidized amount for which he or she was eligible and the subsidized amount that he or she received. For dependent undergraduate students, the unsubsidized loan is the difference between the student's cost of attendance and the student's estimated financial assistance (including a subsidized loan if the student qualifies for one).

Additional eligibility for unsubsidized loans, beyond the base subsidized/unsubsidized amount, is available to all independent students and to dependent students whose parents are likely to be precluded by exceptional circumstances from receiving a PLUS loan, as determined by the SFA administrator.

For a student who has not successfully completed the first two years of undergraduate study: (1) up to $4,000 for a program of study at least an academic year in length; and (2) for programs with less than a full academic year remaining, the loan must be prorated.

For a student who has successfully completed the first and second years of an undergraduate program but who has not successfully completed the remainder of

the program: (1) up to $5,000 for a program of study at least an academic year in length; and, (2) for programs with less than a full academic year remaining, the loan must be prorated.

Graduate or professional students may borrow up to $10,000 per academic year.

Exceptions: Annual increased loan limits for certain health professions students who previously borrowed under the HEAL program are authorized. See Dear Colleague Letters GEN-96-14, GEN-97-4, GEN-97-14, GEN-98-18, GEN-98-23, GEN-99-21 and subsequent Dear Colleague Letters for detailed information. Dear College Letters are available on the Internet (http://ifap.ed.gov).

Aggregate Loan Limits for Subsidized and Unsubsidized Loans

Aggregate loan limits for subsidized and unsubsidized loans is $23,000 for a dependent undergraduate student; $46,000 for an independent student; and $138,500 ($65,500 subsidized and $73,000 unsubsidized) for a graduate or professional student (includes loans for undergraduate study).

Parent Loans for Undergraduate Students (PLUS)

PLUS loans are limited to parent borrowers. A PLUS loan may not exceed the student's estimated cost of attendance minus other financial aid awarded during the period of enrollment for that student (FFEL, 34 CFR sections 682.201 and 682.204; Direct Loan, 34 CFR sections 685.200 and 685.203).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility for Subrecipients** - Not Applicable

G. Matching, Level of Effort, Earmarking

1. Matching

Federal Perkins Loan (CFDA 84.038)

The institution's matching share (Institutional Capital Contribution (ICC)) is one third of the Federal Capital Contribution (FCC) (or 25 percent of the combined FCC and ICC) (34 CFR section 674.8).

Federal Supplemental Educational Opportunity Grant (CFDA 84.007)

The Federal share of awards may not exceed 75 percent of the total FSEOG awards made by the school. The Secretary may authorize 100 percent Federal funding if certain conditions are met (34 CFR section 676.21).

Federal Work Study (CFDA 84.033)

Generally, the Federal share of Federal Work Study (FWS) compensation paid a student employed other than by a private for-profit organization may not exceed 75 percent of the total FWS awards made by the school. However, the Federal share may exceed 75 percent, but not exceed 90 percent, for up to ten percent of the students compensated by FWS during the academic year, if, consistent with regulations of the Secretary, the student is employed at a nonprofit private organization or a government agency that (1) is not a part of, and is not owned, operated, or controlled by, or under common ownership, operation, or control with, the institution, (2) is selected by the institution on an individual case-by-case basis for such student; and (3) would otherwise be unable to afford the costs of such employment (42 USC 2753(b)(5)).

The Federal share of FWS for work at private-for-profit organizations is limited to 50 percent. A Federal share of 100 percent is allowable in two situations: (1) (a) the institution is designated an eligible institution under the HEA Title III Strengthening Institutions Program or the Strengthening Historically Black Colleges and Universities Program, (b) the work is performed by the student for the institution, a public agency, or a private nonprofit organization, and (c) the increased Federal share was requested by the institution as part of its FWS application for that year; or (2) (a) the student is employed as a reading tutor for children who are in preschool through elementary school or the student is employed as a tutor in a family literacy program that provides services to families with preschool age or elementary school children, and (b) the work is performed by the student for the institution, a public agency, or a private nonprofit organization (34 CFR section 675.26).

Health Professions Student Loan (HPSL)/Primary Care Loan (PCL), CFDA 93.342, Nursing Student Loan (NSL), CFDA 93.364

The institution's matching share (ICC) is one ninth of the FCC and must be deposited in a health professions student loan fund (42 CFR sections 57.202 and 57.302).

2. **Level of Effort** - Not Applicable

3. **Earmarking**

Federal Work Study (CFDA 84.033)

An institution shall use at least 5 percent of its allocation for an award year to compensate students employed in community service activities unless waived by the Secretary. Beginning July 1, 2000, that percentage increases to 7 percent. The institution can only use up to 10 percent of its FWS or $50,000 whichever is less for a JLD program (34 CFR sections 675.18 and 675.32).

J. Program Income

Federal Perkins Loan Program (CFDA 84.038)

Principal and interest repayments made by students and reimbursements for canceled loans are reinvested in the Federal Perkins Loan revolving fund (34 CFR section 674.8).

L. Reporting

1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Not Applicable

e. *Grant Administration and Payment System (GAPS) (OMB No. 1875-0138)* - Grantees draw funds and account to ED using GAPS. Grantees request funds by (1) creating a payment request using the GAPS External Access System through the Internet, (2) calling the GAPS Payee Hotline, or (3) if the grantee is placed on a reimbursement basis for an award, submitting an SF-270, *Request for Advance or Reimbursement* to an ED program or regional office. When creating a payment request in GAPS, the grantee enters the drawdown amounts, by award, directly into GAPS. When requesting funds using the other 2 methods, the grantee provides this information to the hotline operator, or on the SF-270, and ED staff enter the data into GAPS. ED also enters other award data into GAPS, including authorization amounts and payment status. The system maintains and provides cumulative data on net draws and the available balance for each award.

ED considers drawn funds to have been expended by the grantee for the award(s) identified (notwithstanding that the grantee has up to three days to make disbursements). Cumulative drawdown amounts in GAPS should accurately reflect the grantee's actual disbursement of funds by award. Grantees can redistribute drawn amounts between grant awards by making adjustments in GAPS to reflect actual disbursements for each award. For example, if a grantee draws too much under one award, it can enter an adjustment in GAPS to reallocate the excess amount to other awards for which there were immediate cash needs, as long as the net amount of the adjustment is zero.

To assist grantees in reconciling their internal accounting records with GAPS, grantees can use the GAPS External Access System (http://gapsweb.ed.gov) to obtain a GAPS Activity Report showing cumulative and detail information for each award. The GAPS Activity Report can be created and viewed on-line and a hard copy may be printed as well.

f. *Pell Payment Data (OMB No.1840-0688)* - The Pell Payment Data is the term used to refer to the electronic or magnetic payment record used to report to ED the Pell payments to students. The record contains the EFC. COA, enrollment status and disbursement information. After the school receives a SAR or ISIR, the school completes the Payment Data by filling in awards information.

The school periodically sends payment data to ED in a batch on one of three automated systems: Electronic Data Exchange, Recipient Data Exchange or Floppy Disk Data Exchange. (Note: Floppy Disk Data Exchange will no longer be available starting with the 1999-2000 award year. Recipient Data Exchange will no longer be available starting with the 2000-2001 award year.) Beginning in the 1999-2000 award year, all institutions will use origination and disbursement records in the new Recipient Financial Management Service (RFMS) to report Federal Pell Grant Program student payment information and to request funds. These records generally contain the same data schools reported using Pell Payment Data.

ED processes the Payment Data and returns Processed Payment Data to the school. The Processed Payment Data includes the information originally provided by the school along with ED identification of what category each record was placed: Rejected, Accepted with Assumptions, Duplicates and Accepted. In testing the Pell Payment data, the auditor should be most concerned with the data ED has categorized as accepted or accepted with assumptions. Institutions must report student payment data within 30 calendar days after the school makes a payment; or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days, bi-weekly, weekly or may set up their own system to ensure that changes are reported in a timely manner (34 CFR section 690.83; 62 FR 31487; *Federal SFA Handbook*).

2. **Performance Reporting** - Not Applicable

3. **Special Reporting**

a. *Fiscal Operations Report and Application to Participate (FISAP) (ED Form 646-1) (OMB No. 1840-0073)* - This electronic report is submitted

annually to receive funds for the campus-based programs. The school uses the *Fiscal Operations Report* portion to report its expenditures in the previous award year and the *Application to Participate* portion to apply for the following year. FISAPs are required to be submitted by October 1 following the end of the award year (which is always June 30). For example, by October 1, 1999, the institution should submit its FISAP that includes the *Fiscal Operations Report* for the award year ended June 30, 1999, and the *Application to Participate* for the 2000-2001 award year (FPL, FWS, FSEOG 34 CFR section 673.3; *Instruction Booklet for Fiscal Operations Report and Application to Participate*).

Key Line Items - The following line items contain critical information.

Part I, Identifying Information

Part II, Application

- Information on enrollment
- Assessments and expenditures
- Information on eligible aid applicants

Part III, Federal Perkins Loan Program

- Fiscal Report (Trace material line items)
- Fund Activity (Annual) During the XXXX-XX Award Year
- Cumulative Repayment Information
- Cohort Default Rate

Part IV, Federal Supplemental Educational Opportunity Grant Program

- All sections

Part V, Federal Work-Study (FWS) Program

- All sections

Part VI, Program Summary for Award Year

- Distribution of Program Recipients and Expenditures by Type of Student (Trace a sample of line items)

b. *FPL and Grant Overpayment Reporting to the National Student Loan Data System (NSLDS) (OMB No. 1840-0689)* - The NSLDS is a national database of information about loans and other financial aid awarded to students under Title IV. Educational and financial institutions, as well as other lending entities may enter data in NSLDS pertaining to FPL, FFEL, and William D. Ford Direct loans and Title IV grant program

overpayments. Individual loan histories (screen RC83) and grant overpayment summaries (screen RC0L) are accessible from the NSLDS Main Menu. The individual student identifier is the social security number (20 USC 1092b).

N. Special Tests and Provisions

1. Separate Funds (HPSL, NSL, FPL)

Compliance Requirement - The institution must maintain a separate fund account for each program (HPSL, 42 CFR section 57.205; NSL, 42 CFR section 57.305; and FPL, 34 CFR sections 674.8 and 674.19).

Audit Objective - Determine whether separate fund account(s) were established.

Suggested Audit Procedures

Review accounting records to verify that a separate fund was established for each program.

2. Verification

Compliance Requirement - An institution shall require each applicant whose application is selected by the central processor, based on edits specified by ED, to verify the items specified in 34 CFR section 668.56. The institution is not required to verify the applications of more than 30 percent of its total number of applicants. The institution shall also require applicants to verify any information used to calculate EFC it has reason to believe is inaccurate. The institution is required to establish written policies and procedures that incorporate provisions of 34 CFR section 668.53 for verifying this information. Acceptable documentation for the items is listed in 34 CFR section 668.57.

Audit Objective - Determine whether the institution established policies and procedures to verify information in student aid applications, and verified all required information of selected applications in accordance with the requirements.

Suggested Audit Procedures

a. Review the institution's policies and procedures for verifying student applications and verify that they meet the requirements of 34 CFR section 668.53.

b. Select a sample of applications that were selected for verification and review student aid files to ascertain whether the institution obtained acceptable documentation to verify the information required.

3. Disbursements To Or On Behalf of Students

Compliance Requirement

Title IV Programs - General

The institution may not make a disbursement to a student for a payment period until the student is enrolled in classes for that payment period. The earliest an institution may disburse SFA funds other than FWS (either paying the student directly or crediting the student's account) is 10 days before the first day of classes of the payment period for which the disbursement is intended. There are two exceptions to this rule. Institutions may not disburse or deliver the first installment of FFEL or Direct Loans to first year undergraduates who are first time borrowers until 30 days after the student's first day of classes. The 1998 Amendments to the HEA modified the application of this 30-day requirement. Now, an institution may be exempted from this rule if it has a cohort default rate of less than 10 percent for the three most recent fiscal years. The second exception applies to a student who is enrolled in a clock hour educational program or a credit hour program that is not offered in standard academic terms. The earliest the institution may disburse funds is the later of ten days before the first day of classes for the payment period or, except for the certain circumstances under the FFEL and Direct Loan Programs, the day the student completed the previous payment period. The exceptions for the FFEL and Direct Loan Programs are described in 34 CFR sections 682.604(c)(6)(ii), (c)(7) and (c)(8); and 685.301(b)(3)(ii), (b)(5) and (b)(6), respectively (34 CFR section 668.164).

If a student received financial aid while attending one or more other institutions, the financial aid administrator must request a financial aid transcript (FAT) from the other institutions or obtain the information from the National Student Loan Data System (See Dear Colleague Letter 96-13). Once the FAT is requested, the institution can pay the student Pell and campus-based aid for one payment period only and can certify a FFEL loan or originate a Direct loan. However, the institution can't release the proceeds of FFEL or Direct loans or make any subsequent payments under the Pell or Campus-based programs until the FAT is received (34 CFR section 668.19).

For students whose applications were selected for verification, if the institution has reason to believe that information included in the application is inaccurate, the institution may not: (1) disburse any Pell or campus-based aid; (2) employ the applicant in its FWS program; or (3) certify FFEL loans or originate Direct Loans (or process proceeds of previously certified or originated loans) until the applicant verifies or corrects the information. If the institution doesn't have any reason to believe that the information is inaccurate, the institution may withhold payment of Pell or Campus-based aid and loan certification, or may make one disbursement of Pell or Campus-based aid, employ or allow an employer to employ an eligible student under FWS for the first 60 consecutive days after the student's enrollment and may certify the FFEL loan or originate the Direct Loan, but can't process the proceeds. If the verification process is not complete after 45 days, the institution shall return the proceeds to the lender (34 CFR section 668.58).

Pell

To disburse Pell funds, the institution must have received a valid ISIR from the central processor or a valid SAR from the student by the earlier of the deadline notice published in the *Federal Register* (normally the last work day in August following the end of the award year) or the last date that the student is still enrolled and eligible for payment. The institution has discretion in disbursing funds within a payment period, but must disburse the full amount before the end of the payment period. The institution must review and document the student's eligibility before it disburses funds each payment period (34 CFR sections 690.61, and 690.75 through 690.78).

FPL

If the institution is making a loan for a full academic year and uses standard academic terms, the institution must advance a portion of the loan during each payment period. If standard academic terms are not used, it must advance funds at least twice during the academic year - once at the beginning and once at the midpoint. Loan payments must be supported by a signed promissory note (34 CFR section 674.16).

FFEL

The institution must determine that the student has maintained eligibility for the FFEL loan before each disbursement of loan proceeds. Disbursements are required on a payment period basis, and the institution is required to provide the lender with a disbursement schedule. In addition, an institution under the reimbursement payment method must receive the Department's approval prior to disbursing loan funds. Loan funds provided by electronic fund transfer or master check may not be requested earlier than: 27 days after the first day of classes of the first payment period for a first-year, first-time Stafford Loan borrower; or 13 days before the first day of classes for any subsequent payment period for a first-year, first-time Stafford Loan borrower or for any payment period for all other FFEL borrowers. Loan funds must be disbursed within 10 business days of receipt if the lender provided the funds by EFT or master check after July 1, 1997, but before July 1, 1999; 3 business days if the lender provided the funds by EFT or master check on or after July 1, 1999; or 30 days if the lender provided the funds by check payable to the borrower or copayable to the borrower and the institution (34 CFR sections 668.162, 668.164, 668.167(b), 682.603, and 682.604(d)).

If (1) a student does not register for the period of enrollment for which the loan was made, (2) a registered student withdraws or is expelled *prior to the first day of classes*; or (3) if the institution does not disburse FFEL loan proceeds to a student or parent in accordance with the time frames required in 34 CFR section 668.167(b), the institution must return the funds to the lender within 10 business days after the date the funds were required to be disbursed. Exceptions to (3) above are described in 34 CFR section 668.167(b)(3) and (c) (34 CFR section 668.167(b)(2)).

Direct Loan

Except in the case of an allowable late disbursement (34 CFR Section 685.303(d)), before disbursing the loan proceeds, the institution must determine that the student maintained continuous eligibility from the beginning of the loan period described in the promissory note. Option 1 and Option 2 institutions may not disburse loan proceeds until they have obtained a legally enforceable promissory note. Option 1 and standard origination institutions may only disburse funds for students listed on the Actual Disbursement Roster (34 CFR sections 685.301 and 685.303).

HPSL/PCL and NSL

Student loans may be paid to or on behalf of student borrowers in installments considered appropriate by the school, except that a school may not pay to or on behalf of any borrowers more than the school determines the student needs for any given installment period (e.g., semester, term, or quarter). However, effective November 13, 1998, the amount of the loan may be increased, in the case of the third or fourth year of a student at a school of medicine or osteopathic medicine, to pay balances of loans that were made to the individual for attendance at the school (42 USC 292r(a)(2); section 722r(a)(2) of PHSA; Pub. L. No. 105-392, section 134(a)(2)). At the time of payment a HPSL borrower must be a full time student, a NSL borrower must be at least a half time student (HPSL, 42 CFR section 57.209; NSL, 42 CFR section 57.309). Each student loan must be evidenced by a properly executed promissory note (HPSL, 42 CFR section 57.208; NSL, 42 CFR section 57.308).

FWS

The student's wages are earned when the work is performed. The institution shall pay the student at least once per month. The Federal share must be paid by check or similar instrument the student can cash on his or her endorsement. Effective July 1, 2000 an institution may, upon request by a student, credit FWS funds to a student's account. The institution can only credit the account for tuition, fees, institutional room and board, and other school-provided goods and services (34 CFR section 675.16).

Audit Objective - Determine whether disbursements to students were made or returned to lenders in accordance with required time frames; and, whether required reviews were made and required documents and approvals were obtained before disbursing SFA funds.

Suggested Audit Procedures

a. Review a sample of disbursements to students and verify that they were made or returned in accordance with required time frames and for Direct Loan Option 1 and standard origination institutions, only to the students listed on the Actual Disbursement Roster.

b. Review loan or other files to verify that the institution performed required procedures and obtained required documents prior to disbursing funds. For institutions under the reimbursement method of payment, verify that FFEL proceeds were not disbursed until approval from the Department was obtained.

4. Refunds/Return of Title IV Funds

On November 1, 1999 final regulations pertaining to the 1998 Amendment of the Higher Education Act of 1965, as amended were published in the *Federal Register*. The regulations modify "refunds" of institutional charges and "repayments" of Title IV, HEA program funds to a new methodology titled "the return of Title IV funds." Institutions are not required to implement the new methodology until October 7, 2000, however, early implementation is permitted. If an institution chooses early implementation, it must implement the new methodology in its entirety for all students, and it cannot revert back to the old methodology. The old methodology is described below under the "Refunds" Compliance Requirement and the new methodology is described under the "Return of Funds" Compliance Requirement.

Compliance Requirement - "Refunds" - A school is required to have a fair and equitable refund policy under which the school shall make refunds of unearned tuition, fees, room and board and other charges to a student who received HEA Title IV Student Financial Assistance. Under the FFEL program, the school pays to the original lender (or subsequent holder, if the loan has been transferred and the school knows the new holder's identity) the portion of the refund that is allocable to the loan. Refunds should be processed in accordance with established time frames (34 CFR section 668.22).

Calculation of Amounts

The refund policy should provide for a refund of at least the larger of the amount provided by: (1) applicable State law; (2) the standards established by the institution's nationally recognized accrediting agency if approved by the Secretary of Education; or (3) the pro rata refund calculation described below, for any student attending the school for the first time, and who withdrew on or before the 60 percent point in time of the period of enrollment for which the student has been charged. After calculating all possible refund amounts (State, accrediting agency, and statutory pro rata), the school must compare and use the calculation that provides the largest refund. If the pro rata refund calculation in (3) above does not apply (i.e., the student is not attending the institution for the first time or withdrew after the 60 percent point in time for the period of enrollment for which the student has been charged) and there are no standards for refunds established by State law or the accrediting agency, the refund should be at least the larger of the amount provided by (1) the Federal refund calculation described below or (2) the school's policy (the policy it uses for non-SFA students) (34 CFR section 668.22(b)).

Refunds of $25 or less may not have to be repaid. A refund returned to an SFA loan program would reduce the amount of the loan that a student would have to repay. A

school may retain a refund of $25 or less due to an SFA loan program only if the school has written authorization from the student in the enrollment agreement to do so. The enrollment agreement must explain clearly that the student is permitting the school to keep the funds, rather than having the funds used to reduce the student's loan debt, should the student withdraw (34 CFR section 668.22(g)(3)(iii)(B)).

The pro rata refund referred to above means a refund of not less than that portion of the tuition, fees, room, board, and other charges assessed the student by the institution equal to the portion of the period of enrollment for which the student has been charged that remains on the withdrawal date, rounded down to the nearest 10 percent of that period, less: (1) any unpaid amount of a scheduled cash payment; (2) a reasonable administrative fee not to exceed the lesser of 5 percent of tuition, fees, room, board, and other charges assessed the student; or $100; and, (3) documented costs of equipment issued to the student that is unreturnable or not returned in good condition (34 CFR section 668.22(c)).

The Federal refund calculation referred to above means a refund of not less than the portion of institutional charges to be refunded, determined as follows (34 CFR section 668.22(d)):

1. If the student withdraws, drops out, or is expelled before the first day of classes:

   (a) Any amount paid to the student under FPL, FSEOG and the Federal Pell grant programs are considered an overpayment and must be returned to the respective program (34 CFR section 668.21).

   (b) All loan proceeds under the FFEL and Direct Loan programs should be returned to the lender (34 CFR sections 682.604(d)(3) and 682.685.303(b)(3).

2. If the institution can't document that a student attended any class during the period of enrollment:

   (a) Any amount paid to the student under FPL, FSEOG and Pell Grant programs are considered an overpayment and must be returned to the respective program (34 CFR sections 668.21-22).

   (b) The institution must return to FFEL or Direct Loan all loan proceeds directly credited to the student's account, and any amount paid by the student directly to the school, up to the amount of loan proceeds delivered to the student for that payment period (34 CFR sections 682.604(d)(4) and 685.303(b)(3)).

3. If the student withdraws on the first day of classes, the institution must refund 100 percent of institutional charges, less an administrative fee, if any, not to exceed the lesser of 5 percent or $100.

4. If the student withdraws any time after the first day of classes up to and including the first 10 percent (in time) of the enrollment period, the institution must refund at least 90 percent of institutional charges, less an administrative fee, if any, not to exceed the lesser of 5 percent or $100.

5. If the student withdraws any time after the end of the first 10 percent of the enrollment period up to and including the first 25 percent of the enrollment period, the institution must refund at least 50 percent of institutional charges, less an administrative fee, if any, not to exceed the lesser of 5 percent or $100.

6. If the student withdraws any time after the end of the first 25 percent of the enrollment period up to and including the first 50 percent of the enrollment period, the institution must refund at least 25 percent of institutional charges, less an administrative fee, if any, not to exceed the lesser of 5 percent or $100.

The withdrawal date used to calculate the refund is the earlier of: (a) the date that the student notifies an institution of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later; or (b) if the student drops out of the institution without notifying the institution (does not withdraw officially), the last recorded date of class attendance by the student, as documented by the institution.

Allocation of Refunds to Programs

Refunds must be distributed in the order prescribed below. The prescribed order must be followed regardless of the school's agreements with other State agencies or private agencies (34 CFR section 668.22(h) and the *Federal SFA Handbook*).

1. Unsubsidized Federal Stafford Loan
2. Subsidized Federal Stafford Loan
3. Federal PLUS Loan
4. Unsubsidized Federal Direct Stafford Loan
5. Subsidized Federal Direct Stafford Loan
6. Federal Direct PLUS Loan
7. Federal Perkins Loan
8. Federal Pell Grant
9. Federal Supplemental Education Opportunity Grant
10. Other SFA Programs
11. Other Federal, State, private, or institutional sources of aid
12. The student.

The school must pay the portion of a refund that is allocated to a HEAL loan directly to the original lender or a subsequent holder of a note. The borrowers must be notified by the school of such action (42 CFR section 60.54).

Timing of Refunds

Except as described below, refunds due to the SFA programs (including Direct Loan) are required to be deposited to the SFA accounts within 30 days or returned to the appropriate FFEL lender within 60 days of the date the student officially withdraws or is expelled, or the date the institution determines the student unofficially withdrew. For a student who does not return from an approved Leave of Absence (LOA) refunds should be made within 30 days of the earlier of the end of the LOA or the date the student notifies the institution that he or she will not be returning. See Chapter 3 of the *Federal SFA Handbook* for a detailed discussion on determining a withdrawal date (34 CFR sections 668.22, 682.607, and 685.306).

Compliance Requirement - Return of Funds - New regulations govern the return of Title IV funds effective July 1, 2000, and those regulations must be implemented by institutions no later than October 7, 2000. Institutions may, at their discretion, choose to implement the regulations on or after November 1, 1999. In such cases, the institution must implement the new regulations in their entirety, must apply the regulations to all Title IV students, and cannot revert back to "refund" methodology (November 1, 1999, *Federal Register* (64 FR 59016)).

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined in this section and no additional disbursements may be made to the student for the payment period or period of enrollment. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR sections 668.22(a)(1)-(3)).

Post-withdrawal disbursements must be made from available grant funds before available loan funds. Post-withdrawal disbursements may be credited to the student's account if outstanding charges exist on the student's account, up to the amount of the outstanding charges. If loan funds are used to credit the student's account, the institution must notify the student, or parent in the case of a PLUS loan, and provide the borrower with the opportunity to cancel all or a portion of the loan. Institutions must offer, by written notification, post-withdrawal disbursements not credited to a student's account to the student or borrower within 30 days of the date of the institution's determination that the student withdrew. Based on the student or borrower's response or lack of response, the institution may or may not make the post-withdrawal disbursement (34 CFR sections 668.22(a)(4) and 668.164(g)(2)).

Withdrawal Date

If an institution is required to take attendance the withdrawal date is the last date of academic attendance as determined by the institution from its attendance records. An institution is required to take attendance if the institution is required to take attendance for some or all of its students by an entity outside of the institution (such as institution's accredited agency or State agency) (34 CFR section 668.22(b)(3)).

If an institution is not required to take attendance, the withdrawal date is: (1) the date that the student began the withdrawal process prescribed by the school; (2) the date that the student otherwise provided official notification to the school, in writing or orally, of his or her intent to withdraw; (3) if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period or, if applicable, the period of enrollment; (4) if the institution determines that a student did not begin the withdrawal process or otherwise notify the school of the intent to withdraw due to illness, accident, grievous personal loss or other circumstances beyond the student's control, the date the institution determines is related to that circumstance; (5) if a student does not return from an approved leave of absence, the date that the institution determines the student began the leave of absence; or (6) if the student takes an unapproved leave of absence, the date that the student began the leave of absence (34 CFR sections 668.22(c) and (d)).

Calculation of the Amount of Title IV Assistance Earned

The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date. A student earns 100 percent if his or her withdrawal date is after the completion of 60 percent of: (1) the payment period or period of enrollment for a program measured in credit hours; or (2) the clock hours scheduled to be completed for the payment period or period of enrollment for a program measured in clock hours. Otherwise, the percentage earned by the student is equal to the percentage of the payment period or period of enrollment that was completed as of the student's withdrawal date. The percentage of Title IV grant or loan assistance that has not been earned by the student is the complement of one of these calculations.

The unearned amount of Title IV assistance to be returned is calculated by subtracting the amount of Title IV assistance earned by the student from the amount of Title IV aid that was disbursed to the student as of the date of the institution's determination that the student withdrew (34 CFR section 668.22(e)).

Use of Payment Period or Period of Enrollment

The treatment of Title IV grant or loan funds if a student withdraws must be determined on a payment period basis for a student who attended a standard term-based (semester,

trimester or quarter) educational program. The treatment of Title IV grant or loan funds if a student withdraws may be determined on either a payment period basis or a period of enrollment basis for a student who attended a non-term based or a nonstandard term-based educational program (34 CFR section 668.22(e)(5)).

Percentage of Payment Period or Period of Enrollment Completed

The percentage of the payment period completed or period of enrollment completed is determined in the case of a program that is measured in: (1) credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date; (2) clock hours, by dividing the total number of clock hours in the payment period or period of enrollment into the number of clock hours: (a) completed by the student in that period as of the student's withdrawal date; or (b) scheduled to be completed as of the student's withdrawal date, if the clock hours completed in the period are not less than 70 percent of the hours that were scheduled to be completed by the student as of the student's withdrawal date. The total number of calendar days in a payment or enrollment period includes all days within the period, except that schedule breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period (34 CFR section 668.22(f)).

Institution's Return of Unearned Aid

The Institution must return the lesser of: (1) the total amount of unearned Title IV assistance to be returned as described above; or (2) an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student. If, for a non-term program an institution chooses to calculate the treatment of Title IV assistance on a payment period basis, but the institution charges for a period that is longer than the payment period, "total institutional charges incurred by the student for the payment period" is the greater of: (1) the prorated amount of institutional charges for the longer period, or (2) the amount of Title IV assistance retained for institutional charges as of the student's withdrawal date (34 CFR section 668.22(g)).

Student's Return of Unearned Aid

The amount a student is responsible for returning is calculated by subtracting the amount of unearned aid that the institution is required to return from the total amount of unearned Title IV assistance to be returned. The institution's responsibilities in managing student repayments are discussed in detail in 34 CFR section 668.22(h)(4) (34 CFR section 668.22(g)).

Allocation of Return of Title IV Funds

Returns of Title IV funds must be distributed in the order prescribed below. The prescribed order must be followed regardless of the school's agreements with other State agencies or private agencies (34 CFR section 668.22(i)).

1. Unsubsidized Federal Stafford Loan
2. Subsidized Federal Stafford Loan
3. Unsubsidized Federal Direct Stafford Loan
4. Subsidized Federal Direct Stafford Loan
5. Federal Perkins Loan
6. Federal PLUS
7. Federal Direct PLUS
8. Federal Pell Grant
9. Federal Supplemental Educational Opportunity Grant
10. Other SFA Programs

Timing of Return of Title IV Funds

Returns of Title IV funds are required to be deposited to the SFA accounts or returned to the appropriate FFEL lender within 30 days after the date the institution determines that the student withdrew.

An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: (1) payment period or period of enrollment, (2) academic year in which the student withdrew; or (3) educational program from which the student withdrew (34 CFR section 668.22(j)).

Audit Objective - Determine whether the institution is making refunds/returns of Title IV funds in the proper amount and in a timely manner and is applying the refunds/return of Title IV funds to Federal programs as required.

Suggested Audit Procedures

a. Identify a sample of students who withdrew or dropped out during the audit period. Review refund/return of Title IV funds determinations/calculations for conformity with requirements.

b. Trace refunds/return of Title IV funds to disbursement and accounting records (including canceled checks to lenders and students) to verify that refunds/return of Title IV funds were applied to programs in the required order, that disbursements to lenders and students were made when applicable and that credits and payments were made within required time frames.

c. For a sample of students for which no refunds/return of Title IV funds were made, review academic records to ascertain whether the students completed the payment or enrollment period. For students who received all failing and/or incomplete grades, review attendance records to ascertain whether the students had dropped out and were due a refund.

5. Student Status Changes (HEAL, FFEL and William D. Ford Direct Loan)

Compliance Requirement - Each school must notify the holder of the HEAL loan of any change in the student's enrollment status within 30 days following the change in status. The school must also notify the lender of any change in the student's name. Under the FFEL and Direct Loan programs, schools must complete and return within 30 days of receipt student status confirmation reports sent by the National Student Loan Data System (NSLDS). Unless the school expects to complete its next student status report within 60 days, the school must notify NSLDS within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (HEAL, 42 CFR section 60.53; FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309). (Note: This process has changed to an electronic process. The institution determines how often it receives the SSCR. Once received, the institution must correct and submit any changes electronically. The automated process is described in the *Student Status Confirmation Report User's Guide*.)

Audit Objective - Determine whether the institution is promptly notifying lenders or NSLDS of changes in student status in a timely and accurate manner.

Suggested Audit Procedures

a. Select a sample of HEAL borrowers that graduated, withdrew or dropped out during the period. Review loan or correspondence files to verify that the institution notified the lender of the change in student status within the required time frame.

b. Select a sample of FFEL/Direct Loan borrowers that graduated, withdrew or dropped out during the period. Verify that the change in student status was reported to the lender or other appropriate party within 30 days, or was included in a student status confirmation report within 60 days.

6. Student Loan Repayments (FPL, HPSL/PCL and NSL)

Compliance Requirement - FPL loans, and HPSL and NSL loans made prior to November 13, 1998, including accrued interest, are repayable in equal or graduated periodic installments in amounts calculated on the basis of a 10 year repayment period. For HPSL loans made on or after November 13, 1998, the repayment period is not less than 10 and not more than 25 years, at the discretion of the institution. For NSL loans after November 13, 1998, the 10 year repayment period may be extended for 10 years for any student borrower who, during the repayment period failed to make consecutive

payments and who, during the last 12 months of the repayment period, has made at least 12 consecutive payments (42 USC 292r(c) and 297b(b)(8); sections 722(c) and 836(b)(8) of PHSA; Pub. L. No. 105-392, sections 133(a)(2) and 134(a)(3)). Except as required in 42 CFR section 57.210(a), a repayment of a HPSL loan must begin one year after the student ceases to be a full time student. For a NSL loan, repayment must begin nine months after the student ceases to be a full time or half time student, except as required in 42 CFR section 57.310(a). For a FPL loan, the institution must establish a repayment plan. The repayment period begins after an initial grace period of either six months or nine months after the student ceases to be at least a half-time student at an institution of higher education, depending on when the loan was made (34 CFR section 674.31(b)(2)).

Borrowers may be eligible for loan deferments or cancellations under certain circumstances. Examples of when loan payments may be deferred are when the borrower is in certain student statuses at other eligible institutions, employed as a full-time teacher at certain schools, employed full-time in other specified occupations, or serving in the military or as a volunteer in the Peace Corps, ACTION programs or other programs deemed to be comparable. Loans may be canceled based on full-time employment as a teacher at certain schools or specified fields, other qualifying employment, military or other volunteer service, and death or disability. Cancellation rates (amount of loan that is canceled for each year of qualifying service) vary, depending on the criteria. Specific requirements for deferment and cancellation vary, depending on when the loan was made. To qualify for a deferment or cancellation, the borrower is required to submit to the institution to which the loan is owed a written request for the deferment or cancellation, with documentation required by the institution, by the date established by the institution (FPL, 34 CFR sections 674.33 through 674.40, and 674.51 through 674.62; HPSL, 42 CFR sections 57.201, 57.211 and 212; NSL, 42 CFR sections 57.311 through 313a).

Institutions must exercise due care and diligence in the collection of loans (HPSL and NSL, 42 CFR section 57.210(b) and 42 CFR section 57.310(b), respectively). For the FPL, such due diligence procedures include the following:

(1) A requirement to conduct an exit interview with the borrower before he or she leaves the institution and to contact the borrower a minimum of three times during the initial grace period for loans with nine month grace periods or two times for loans with six month grace periods (34 CFR section 674.42).

(2) Specific billing procedures to notify borrowers of overdue payments and to demand overdue amounts (34 CFR section 674.43).

(3) Specific collection procedures to recover amounts from defaulted borrowers who do not respond satisfactorily to demands routinely made as part of the institution's billing procedures, including litigation procedures (34 CFR section 674.45).

Audit Objective - Determine whether institutions are processing deferment and cancellation requests and servicing loans as required.

Suggested Audit Procedures

a. Select a sample of loans that entered repayment during the audit period and review loan records to verify that the conversion to repayment was timely, and that a repayment plan was established.

b .Review the institution's requirements for applying for and documenting eligibility for loan deferments and cancellations. Select a sample of loan deferments and loan cancellations and review documentation to ascertain whether the deferments or cancellations were adequately supported.

c. Select a sample of defaulted loans and review loan records to ascertain if the required interviews, contacts, billing procedures and collection procedures were carried out.

7. Federal Work Study Agreements

Compliance Requirement - FWS students may be employed by the institution, a Federal, State or local agency, a private not-for-profit organization or a private for-profit organization but the employment must not: (1) impair existing service contracts; (2) displace employees; (3) fill jobs that are vacant because the employer's regular employees are on strike; or (4) involve the construction, operation, or maintenance of any part of a facility used or to be used for religious worship or sectarian instruction. The institution must enter into a written agreement with any agency or organization providing employment under the FWS program (34 CFR sections 675.20 through 675.23).

Audit Objective - Determine whether written agreements with employers are made as required.

Suggested Audit Procedure

a. Select a sample of participating students and ascertain if written agreements with the employers were executed.

8. Borrower Data Transmission and Reconciliation (FDL)

Compliance Requirement - Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Loan Origination Center (LOC) within 30 days of disbursement (*OMB 1840-0672*). Each month, the LOC provides institutions with a Direct Loan School Account Statement (DLSAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three DLSAS data files each month. Instructions for obtaining specific borrower information are available on the Internet at address http://home.gvi.net/~edoig/sfa.htm (34 CFR sections 685.102(b), 685.301, and 303).

Audit Objectives - Determine whether institutions are reconciling DLSAS data files to institution records each month. Determine whether dates and amounts of disbursements to borrowers recorded in the DLSS are supported by the institution's records on individual borrowers.

Suggested Audit Procedures

a. Test a sample of the DLSAS and ascertain that reconciliations are being performed.

b. Test a sample of borrowers to verify that disbursement dates and amounts in the DLSS are supported by the institution's records.

IV. OTHER INFORMATION

Pell Adjustments - The following is intended to alert auditors that their clients may request them to perform additional audit work in conjunction with the single audit, in order to claim Pell adjustments. It is not intended that this be covered otherwise.

All Pell Payment Data for an award year must be submitted by September 30 after the award year. Adjustments for Pell grants not claimed by September 30 can be made if the first audit report for the period in which the unclaimed Pell grants were made contains a finding that the institution made proper Pell awards for which it has not received either reimbursement or credit. Dear Colleague Letter (P-97-2) provides instructions to institutions for reporting the Pell adjustments and describes the auditor's responsibilities.

APPENDIX A

FEDERAL STUDENT FINANCIAL ASSISTANCE PROGRAMS

STUDENT ELIGIBILITY COMPLIANCE REQUIREMENTS

Requirements	PELL	FWS	FSEOG	FPL	FFELP	FDL	HPSL	NSL	EFN
1. A regular student enrolled or accepted for enrollment in an eligible program (34 CFR 600.2, 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200, 42 CFR 60.5, 57.206(a), 57.306(a), 57.2804)	X	X	X	X	X	X	X	X	X
2. U.S. Citizen or National (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.5, 57.206(a), 57.306(a), 57.2804)	X	X	X	X	X	X	X	X	X
3. Has Financial Need (34 CFR 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.51(f), 57.206, 57.306 (b), 57.2804(b)(1))	X	X	X	X	X[1]	X[1]	X	X	X
4. Does not owe a refund on a grant awarded under the Pell Grant, or FSEOG programs (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.51(d), 57.206, 57.306)	X	X	X	X	X	X	X	X	
5. Not in default on any student loans (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.51(d), 57.206, 57.306)	X	X	X	X	X	X	X	X	
6. Must maintain good standing, or satisfactory progress (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200; 42 CFR 60.5(d), 57.306)	X	X	X	X	X	X		X	
7. Has registered under Section 3 of the Military Selective Service Act (34 CFR 668.32, 668.37, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200, 42 CFR 60.5, 57.206)	X	X	X	X	X	X	X		
8. Has a correct social security number (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
9. High School Diploma or GED (34 CFR 668.32, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
10. Above the age of compulsory school attendance in the State in which the institution he or she is attending is located (34 CFR 600.2, 600.4, 600.6, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
11. Ability to Benefit (34 CFR 668.32, 668 Subpart J, 690.75, 675.9, 676.9, 674.9, 682.201, 685.200)	X	X	X	X	X	X			
12. In need of a loan (scholarship) to pursue a course of study at the school (42 CFR 60.5(h), 57.206(a), 57.306(a), 57.2804)							X	X	X

[1] Does not always apply to unsubsidized loans.

Requirements	PELL	FWS	FSEOG	FPL	FFELP	FDL	HPSL	NSL	EFN
13. An undergraduate student has received for award year, a SAR or determination of eligibility or ineligibility for a Pell Grant (34 CFR 674.9, 682.201, 690.75) . .	X			X	X				
14. Is not incarcerated (34 CFR 668.32)				X	X	X			
15. Enrolled, as at least a half-time student, in a course of study necessary for enrollment in an eligible program for not longer than one 12-month period (34 CFR 668.32)					X	X			
16. Parents can receive a PLUS loan if conditions are met (34 CFR 682.201, 685.200)					X	X			
17. Exceptional financial need must be demonstrated (42 CFR 57.2804(b)(1))									X
18. Is not incarcerated in a Federal or State penal institution (34 CFR 668.32)	X								
19. Student is willing to repay the loan (34 CFR 674.9)				X					
20. Students with the lowest expected family contributions who will also receive Pell Grants in award year (34 CFR 676.10)			X						
21. Cannot be recipient of a National Health Services Corps Scholarship under Section 751 of the Act, or an Indian Health Scholarship, under Section 757 of the Act, (42 CFR 57.2804(c))									X

PART 6 - INTERNAL CONTROL

INTRODUCTION

The A-102 Common Rule and OMB Circular A-110 require that non-Federal entities receiving Federal awards (e.g., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

This Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that when present and operating effectively may ensure compliance with program requirements. However, the categorizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this Part 6. Non-Federal entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements.

The objectives of internal control pertaining to the compliance requirements for Federal programs (Internal control over Federal Programs), as found in §____.105 of OMB Circular A-133, are as follows:

(1) Transactions are properly recorded and accounted for to:
   (i) Permit the preparation of reliable financial statements and Federal reports;
   (ii) Maintain accountability over assets; and
   (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;

(2) Transactions are executed in compliance with:
   (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
   (ii) Any other laws and regulations that are identified in the compliance supplements; and

(3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. Statement on Auditing Standards No. 78 (SAS 78), *Consideration of Internal Control in a Financial Statement Audit*, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and a related AICPA audit guide, *Consideration of Internal Control in a Financial Statement Audit*, incorporate the components of internal control presented in the COSO Report.

This Part 6 describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements. A description of the components of internal control and examples of characteristics common to the 14 types of compliance requirements are listed below. Objectives of internal control and examples of characteristics specific to each of 13 of the 14 types of compliance requirements follow this introduction. (Because Special Tests and Provisions are unique for each program, we could not provide specific control objectives and characteristics for this type of compliance requirement.)

Control Environment sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

- Sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive.
- If there is a governing Board, the Board has established an Audit Committee or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed.
- Management's positive responsiveness to prior questioned costs and control recommendation.
- Management's respect for and adherence to program compliance requirements.
- Key managers' responsibilities clearly defined.
- Key managers' have adequate knowledge and experience to discharge their responsibilities.
- Staff knowledgeable about compliance requirements and being given responsibility to communicate all instances of noncompliance to management.
- Management's commitment to competence ensures that staff receive adequate training to perform their duties.
- Management's support of adequate information and reporting system.

Risk Assessment is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

- Program managers and staff understand and have identified key compliance objectives.

- Organizational structure provides identification of risks of noncompliance:
  - Key managers have been given responsibility to identify and communicate changes.
  - Employees who require close supervision (e.g. inexperienced) are identified.
  - Management has identified and assessed complex operations, programs, or projects.
  - Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance.
- Process established to implement changes in program objectives and procedures.

Control Activities are the policies and procedures that help ensure that management's directives are carried out.

- Operating policies and procedures clearly written and communicated.
- Procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards.
- Management prohibition against intervention or overriding established controls.
- Adequate segregation of duties provided between performance, review, and recordkeeping of a task.
- Computer and program controls should include:
  - Data entry controls, e.g., edit checks.
  - Exception reporting.
  - Access controls.
  - Reviews of input and output data.
  - Computer general controls and security controls.
- Supervision of employees commensurate with their level of competence.
- Personnel with adequate knowledge and experience to discharge responsibilities.
- Equipment, inventories, cash, and other assets secured physically and periodically counted and compared to recorded amounts.
- If there is a governing Board, the Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed. Written documentation is maintained of the matters addressed at such meetings.

Information and Communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- Accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both.
- Adequate source documentation exists to support amounts and items reported.
- Recordkeeping system is established to ensure that accounting records and documentation retained for the time period required by applicable requirements; such as the A-102 Common Rule (§____.42), OMB Circular A-110 (§____.53), and the provisions of laws, regulations, contracts or grant agreements applicable to the program.
- Reports provided timely to managers for review and appropriate action.
- Accurate information is accessible to those who need it.

- Reconciliations and reviews ensure accuracy of reports.
- Established internal and external communication channels.
  - Staff meetings.
  - Bulletin boards.
  - Memos, circulation files, e-mail.
  - Surveys, suggestion box.
- Employees' duties and control responsibilities effectively communicated.
- Channels of communication for people to report suspected improprieties established.
- Actions taken as a result of communications received.
- Established channels of communication between pass-through entity and subrecipients.

Monitoring is a process that assesses the quality of internal control performance over time.

- Ongoing monitoring built-in through independent reconciliations, staff meeting feed back, rotating staff, supervisory review, and management review of reports.
- Periodic site visits performed at decentralized locations (including subrecipients) and checks performed to determine whether procedures are being followed as intended.
- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
- Internal audit routinely tests for compliance with Federal requirements.
- If there is a governing Board, the Board reviews the results of all monitoring or audit reports and periodically assess the adequacy of corrective action.

A. ACTIVITIES ALLOWED OR UNALLOWED and B. ALLOWABLE COSTS/COST PRINCIPLES

Control Objectives

To provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.

Control Environment

- Management sets reasonable budgets for Federal and non-Federal programs so that no incentive exists to miscode expenditures.
- Management enforces appropriate penalties for misappropriation or misuse of funds.
- Organization-wide cognizance of need for separate identification of allowable Federal costs.
- Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.

Risk Assessment

- Process for assessing risks resulting from changes to cost accounting systems.
- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a Federal program and not be detected.

Control Activities

- Accountability provided for charges and costs between Federal and non-Federal activities.
- Process in place for timely updating of procedures for changes in activities allowed and cost principles.
- Computations checked for accuracy.
- Supporting documentation compared to list of allowable and unallowable expenditures.
- Adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause.
- Adequate segregation of duties in review and authorization of costs.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs.

Information and Communication

- Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.

- Establishment of internal and external communication channels on activities and costs allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs allowed.
- Interaction between management and staff regarding questionable costs.
- Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed and allowable costs under Federal awards.

Monitoring

- Management reviews supporting documentation of allowable cost information.
- Flow of information from Federal agency to appropriate management personnel.
- Comparisons made with budget and expectations of allowable costs.
- Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.

C. CASH MANAGEMENT

Control Objectives

To provide reasonable assurance that the draw down of Federal cash is only for immediate needs, States comply with applicable Treasury agreements, and recipients limit payments to subrecipients to immediate cash needs.

Control Environment

- Appropriate assignment of responsibility for approval of cash draw downs and payments to subrecipients.
- Budgets for draw downs are consistent with realistic cash needs.

Risk Assessment

- Mechanisms exist to anticipate, identify, and react to routine events that affect cash needs.
- Routine assessment of adequacy of subrecipient cash needs.
- Management has identified programs which receive cash advances and is aware of cash management requirements.

Control Activities

- Cash flow statements by program are prepared to determine essential cash flow needs.
- Accounting system is capable of scheduling payments for accounts payable and requests for funds from Treasury to avoid time lapse between draw down of funds and actual disbursements of funds.
- Appropriate level of supervisory review of cash management activities.
- Written policy that provides:
  - Procedures for requesting cash advances as close as is administratively possible to actual cash outlays;
  - Monitoring of cash management activities;
  - Repayment of excess interest earnings where required.
- For State programs subject to a Treasury-State agreement, a written policy exists which includes:
  - Programs covered by the agreement;
  - Methods of funding to be used;
  - Method used to calculate interest; and
  - Procedures for determining check clearing patterns (if applicable for the funding method).

Information and Communication

- Variance reporting of expected versus actual cash disbursements of Federal awards and draw downs of Federal funds.

- Established channel of communication between pass-through entity and subrecipients regarding cash needs.

Monitoring

- Periodic independent evaluation (e.g. by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and Federal draw down activities.
- Subrecipients requests for Federal funds are evaluated.
- Review of compliance with Treasury-State agreements.

D. DAVIS-BACON ACT

Control Objectives

To provide reasonable assurance that contractors and subcontractors paid prevailing wage rates for projects covered by the Davis-Bacon Act.

Control Environment

- Management understands and communicates to staff, contractors, and subcontractors the requirements to pay wages in accordance with the Davis-Bacon Act.
- Management understands its responsibility for monitoring compliance.

Risk Assessment

- Mechanisms in place to identify contractors and subcontractors most at risk of not paying the prevailing wage rates.
- Management identified how compliance will be monitored and the related risks of failure to monitor for compliance with Davis-Bacon Act.

Control Activities

- Contractors informed in the procurement documents of the requirements for prevailing wage rates.
- Contractors and subcontractors required to submit certifications and copies of payrolls which meet the requirements to pay prevailing wage rates.
- Contractors' and subcontractors' payrolls monitored for compliance with prevailing wage rates.

Information and Communication

- Prevailing wage rates are appropriately communicated.
- Reports provide sufficient information to determine if requirements are being met.
- Channels are established for staff, contractors, and workers to report misclassifications or failure to pay prevailing wages.

Monitoring

- Management reviews to ensure that contractors and subcontractors are being required to pay prevailing wage rates.
- On-site visits are performed to monitor classifications and wage rates.
- Monitoring reports from contractors are compared to independent checks.

E. ELIGIBILITY

Control Objectives

To provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

Control Environment

- Staff size and competence provides for proper making of eligibility determinations.
- Realistic caseload/performance targets established for eligibility determinations.
- Lines of authority clear for determining eligibility.

Risk Assessment

- Identification of risk that eligibility information prepared internally or received from external sources could be incorrect.
- Conflict-of-interest statements are maintained for individuals who determine eligibility.
- Process for assessing risks resulting from changes to eligibility determination systems.

Control Activities

- Written policies provide direction for making and documenting eligibility determinations.
- Procedures to calculate eligibility amounts consistent with program requirements.
- Eligibility objectives and procedures clearly communicated to employees.
- Authorized signatures (manual or electronic) on eligibility documents periodically reviewed.
- Access to eligibility records limited to appropriate persons.
- Manual criteria checklists or automated process used in making eligibility determinations.
- Process for periodic eligibility re-determinations in accordance with program requirements.
- Verification of accuracy of information used in eligibility determinations.
- Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

Information and Communication

- Information system meets needs of eligibility decisionmakers and program management.
- Processing of eligibility information subject to edit checks and balancing procedures.
- Training programs inform employees of eligibility requirements.
- Channels of communication exist for people to report suspected eligibility improprieties.
- Management receptive to suggestions to strengthen eligibility determination process.
- Documentation of eligibility determinations in accordance with program requirements.

Monitoring

- Periodic analytical reviews of eligibility determinations performed by management.
- Program quality control procedures performed.
- Periodic audits of detailed transactions.

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Control Objectives

To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.

Control Environment

- Management committed to providing proper stewardship for property acquired with Federal awards.
- No incentives exist to under-value assets at time of disposition.
- Sufficient accountability exists to discourage temptation of misuse of Federal assets.

Risk Assessment

- Procedures to identify risk of misappropriation or improper disposition of property acquired with Federal awards.
- Management understands requirements and operations sufficiently to identify potential areas of noncompliance (e.g., decentralized locations, departments with budget constraints, transfers of assets between departments).

Control Activities

- Accurate records maintained on all acquisitions and dispositions of property acquired with Federal awards.
- Property tags are placed on equipment.
- A physical inventory of equipment is periodically taken and compared to property records.
- Property records contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.
- Procedures established to ensure that the Federal awarding agency is appropriately reimbursed for dispositions of property acquired with Federal awards.
- Policies and procedures in place for responsibilities of recordkeeping and authorities for disposition.

Information and Communication

- Accounting system provides for separate identification of property acquired wholly or partly with Federal funds and with non-Federal funds.
- A channel of communication exists for people to report suspected improprieties in the use or disposition of equipment.

- Program managers are provided with applicable requirements and guidelines.

Monitoring

- Management reviews the results of periodic inventories and follows up on inventory discrepancies.
- Management reviews dispositions of property to ensure appropriate valuation and reimbursement to Federal awarding agencies.

G. MATCHING, LEVEL OF EFFORT, EARMARKING

Control Objectives

To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

Control Environment

- Commitment from management to meet matching, level of effort, and earmarking requirements (e.g., adequate budget resources to meet a specified matching requirement or maintain a required level of effort).
- Budgeting process addresses/provides adequate resources to meet matching, level of effort, or earmarking goals.
- Official written policy exists outlining:
  - Responsibilities for determining required amounts or limits for matching, level of effort, or earmarking.
  - Methods of valuing matching requirements, e.g., "in-kind" contributions of property and services, calculations of levels of effort.
  - Allowable costs that may be claimed for matching, level of effort, or earmarking.
  - Methods of accounting for and documenting amounts used to calculate amounts claimed for matching, level of effort, or earmarking.

Risk Assessment

- Identification of areas where estimated values will be used for matching, level of effort, or earmarking.
- Management has sufficient understanding of the accounting system to identify potential recording problems.

Control Activities

- Evidence obtained such as a certification from the donor, or other procedures performed to identify whether matching contributions:
  - Are from non-Federal sources.
  - Involve Federal funding, directly or indirectly.
  - Were used for another federally-assisted program.

  Note: Generally, matching contributions must be from a non-Federal source and may not involve Federal funding or be used for another federally-assisted program.
- Adequate review of monthly cost reports and adjusting entries.

Information and Communication

- Accounting system capable of:
  - Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations.

- Ensuring that expenditures or expenses, refunds, and cash receipts or revenues are properly classified and recorded only once as to their effect on matching, level of effort, or earmarking.
- Documenting the value of "in-kind" contributions of property or services, including:
  - -- Basis for local labor market rates for valuing volunteer services.
  - -- Payroll records or confirmation from other organizations for services provided by their employees.
  - -- Quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space.

Monitoring

- Supervisory review of matching, level of effort, or earmarking activities performed to assess the accuracy and allowability of transactions and determinations, e.g., at the time reports on Federal awards are prepared.

H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Control Objectives

To provide reasonable assurance that Federal funds are used only during the authorized period of availability.

Control Environment

- Management understands and is committed to complying with period of availability requirements.
- Entity's operations are such that it is unlikely there will be Federal funds remaining at the end of the period of availability.

Risk Assessment

- The budgetary process considers period of availability of Federal funds as to both obligation and disbursement.
- Identification and communication of period of availability cut-off requirements as to both obligation and disbursement.

Control Activities

- Accounting system prevents obligation or expenditure of Federal funds outside of the period of availability.
- Review of disbursements by person knowledgeable of period of availability of funds.
- End of grant period cut-offs are met by such mechanisms as advising program managers of impending cut-off dates and review of expenditures just before and after cut-off date.
- Cancellation of unliquidated commitments at the end of the period of availability.

Information and Communication

- Timely communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines.
- Periodic reporting of unliquidated balances to appropriate levels of management and follow up.

Monitoring

- Periodic review of expenditures before and after cut-off date to ensure compliance with period of availability requirements.
- Review by management of reports showing budget and actual for period.

I. PROCUREMENT AND SUSPENSION DEBARMENT

Control Objectives

To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that no subaward, contract, or agreement for purchases of goods or services is made with any debarred or suspended party.

Control Environment

- Existence and implementation of codes of conduct and other policies regarding acceptable practice, conflicts-of-interest, or expected standards of ethical and moral behavior for making procurements.
- Procurement manual that incorporated Federal requirements.
- Absence of pressure to meet unrealistic procurement performance targets.
- Management's prohibition against intervention or overriding established procurement controls.
- Board or governing body oversight required for high dollar, lengthy, or other sensitive procurement contracts.
- Adequate knowledge and experience of key procurement managers in light of responsibilities for procurements for Federal awards.
- Clear assignment of authority for issuing purchasing orders and contracting for goods and services.

Risk Assessment

- Procedures to identify risks arising from vendor inadequacy, e.g., quality of goods and services, delivery schedules, warranty assurances, user support.
- Procedures established to identify risks arising from conflicts-of-interest, e.g., kickbacks, related party transactions, bribery.
- Management understands the requirements for procurement and suspension and debarment, and, given the organization's staff, departments, and processes, has identified where noncompliance could likely occur.
- Conflict-of-interest statements are maintained for individuals with responsibility for procurement of goods or services.

Control Activities

- Job descriptions or other means of defining tasks that comprise particular procurement jobs.
- Contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.
- Establish segregation of duties between employees responsible for contracting and accounts payable and cash disbursing.
- Procurement actions appropriately documented in the procurement files.

- Supervisors review procurement and contracting decisions for compliance with Federal procurement policies.
- Procedures established to verify that vendors providing goods and services under the award have not been suspended or debarred by the Federal Government.
- Official written policy for procurement and contracts establishing:
  - Contract files that document significant procurement history.
  - Methods of procurement, authorized including selection of contract type, contractor selection or rejection, and the basis of contract price.
  - Verification that procurements provide full and open competition.
  - Requirements for cost or price analysis, including for contract modifications.
  - Obtaining and reacting to suspension and debarment certifications.
  - Other applicable requirements for procurements under Federal awards are followed.
- Official written policy for suspension and debarments that:
  - Contains or references the Federal requirements;
  - Prohibits the award of a subaward, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and
  - Requires staff to obtain certifications from entities receiving subawards (contract and subcontract) over $100,000, certifying that the organization and its principals are not suspended or debarred.

Information and Communication

- A system in place to assure that procurement documentation is retained for the time period required by the A-102 Common Rule, OMB Circular A-110, award agreements, contracts, and program regulations. Documentation includes:
  - The basis for contractor selection;
  - Justification for lack of competition when competitive bids or offers are not obtained; and
  - The basis for award cost or price.
- Employees' procurement duties and control responsibilities are effectively communicated.
- Procurement staff are provided a current *List of Parties Excluded from Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration, or have on-line access.
- Channels of communication are provided for people to report suspected procurement and contracting improprieties.

Monitoring

- Management periodically conducts independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

J. PROGRAM INCOME

Control Objectives

To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.

Control Environment

- Management recognizes its responsibilities for program income.
- Management's prohibition against intervention or overriding controls over program income.
- Realistic performance targets for the generation of program income.

Risk Assessment

- Mechanisms in place to identify the risk of unrecorded or mis-coded program income.
- Variances between expected and actual income analyzed.

Control Activities

- Pricing and collection policies procedures clearly communicated to personnel responsible for program income.
- Mechanism in place to ensure that program income is properly recorded as earned and deposited in the bank as collected.
- Policies and procedures provide for correct use of program income in accordance with Federal program requirements.

Information and Communication

- Information systems identify program income collections and usage.
- A channel of communication for people to report suspected improprieties in the collection or use of program income.

Monitoring

- Internal audit of program income.
- Management compares program income to budget and investigates significant differences.

K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE

Control Objectives

To provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements.

Control Environment

- Management committed to ensuring compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA).
- Written policies exist for handling relocation assistance and real property acquisition.

Risk Assessment

- Identification of risk that relocation will not be conducted in accordance with the URA, e.g., improper payments will be made to individuals or businesses that relocate.

Control Activities

- Employees handling relocation assistance and real property acquisition have been trained in the requirements of the URA.
- Review of expenditures pertaining to real property acquisition and relocation assistance by employees knowledgeable in the URA.

Information and Communication

- A system is in place to adequately document relocation assistance and real property acquisition.

Monitoring

- Management monitors relocation assistance and real property acquisition for compliance with the URA.

L. REPORTING

Control Objectives

To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Control Environment

- Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.
- Management's attitude toward reporting promotes accurate and fair presentation.
- Appropriate assignment of responsibility and delegation of authority for reporting decisions.

Risk Management

- Mechanisms exist to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards.
- Identification of underlying source data or analysis for performance or special reporting that may not be reliable.

Control Activities

- Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.
- Tracking system which reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.
- The required accounting method is used (e.g., cash or accrual).

Information and Communication

- An accounting or information system that provides for the reliable processing of financial and performance information for Federal awards.

Monitoring

- Communications from external parties corroborate information included in the reports for Federal awards.
- Periodic comparison of reports to supporting records.

M. SUBRECIPIENT MONITORING

Control Objectives

To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.

Control Environment

- Establishment of "tone at the top" of management's commitment to monitoring subrecipients.
- Management's intolerance of overriding established procedures to monitor subrecipients.
- Entity's organizational structure and its ability to provide the necessary information flow to monitor subrecipients is adequate.
- Sufficient resources dedicated to subrecipient monitoring.
- Knowledge, skills, and abilities needed to accomplish subrecipient monitoring tasks defined.
- Individuals performing subrecipient monitoring possess knowledge skills and abilities required.
- Subrecipients demonstrate that:
  - They are willing and able to comply with the requirements of the award and
  - They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award.
- Appropriate sanctions taken for subrecipient noncompliance.

Risk Assessment

- Key managers understand the subrecipient's environment, systems, and controls sufficient to identify the level and methods of monitoring required.
- Mechanisms exist to identify risks arising from external sources affecting subrecipients, such as risks related to:
  - Economic conditions.
  - Political conditions.
  - Regulatory changes.
  - Unreliable information.
- Mechanisms exist to identify and react to changes in subrecipients, such as:
  - Financial problems that could lead to diversion of grant funds.
  - Loss of essential personnel.
  - Loss of license or accreditation to operate program.
  - Rapid growth.
  - New activities, products, or services.
  - Organizational restructuring.

Control Activities

- Identify to subrecipients the Federal award information (e.g., CFDA title and number, award name, name of Federal agency, amount of award) and applicable compliance requirements.
- Include in agreements with subrecipients the requirement to comply with the compliance requirements applicable to the Federal program including the audit requirements of OMB Circular A-133.
- Subrecipient's compliance with audit requirements monitored using techniques such as the following:
  - Determining by inquiry and discussions whether subrecipient met thresholds requiring an audit under OMB Circular A-133.
  - If an audit is required, assuring that the subrecipient submits the report, report package or the documents required by OMB circulars and/or recipient's requirements.
  - If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, following up with the subrecipient until the audit is completed. Taking appropriate actions such as withholding further funding until the subrecipient meets the audit requirements.
- Subrecipient's compliance with Federal program requirements monitored using such techniques as the following:
  - Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable.
  - Maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken.
  - Regular contacts with subecipients and appropriate inquiries concerning the Federal program
  - Reviewing subrecipient reports and following-up on areas of concern.
  - Monitoring subrecipient budgets.
  - Performing site visits to subrecipient to review financial and programmatic records and observe operations.
  - Offering subrecipients technical assistance where needed.
- Official written policies and procedures exist establishing:
  - Communication of Federal award requirements to subrecipients.
  - Responsibilities for monitoring subrecipients.
  - Process and procedures for monitoring.
  - Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control.
  - Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity's accounts.

Information and Communication

- Standard award documents used by the non-Federal entity contain:
  - A listing of Federal requirements that the subrecipient must follow. Items can be

specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria.

- The description and program number for each program as stated in the Catalog of Federal Domestic Assistance (CFDA). If the program funds include pass-through funds from another recipient, the pass-through program information should also be identified.
- A statement signed by an official of the subrecipient, stating that the subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements.

- A recordkeeping system is in place to assure that documentation is retained for the time period required by the recipient.
- Procedures are in place to provide channels for subrecipients to communicate concerns to the pass-through entity.

Monitoring

- Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, on-site monitoring reviews of subrecipients, and timely resolution of audit findings.
- Supervisory reviews performed to determine the adequacy of subrecipient monitoring.

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